KONOVER PROPERTY TRUST INC
Form DEFM14A
October 23, 2002
Table of Contents

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to Section 240.14a-12

KONOVER PROPERTY TRUST, INC.

(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies: common stock.
2) Aggregate number of securities to which transaction applies: 31,915,014 shares of common stock.
3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): In accordance with Rule 0-11(c), the fee was calculated to be one-fiftieth of one percent of the proposed cash payment or of the value of the securities and other property to be distributed to the stockholders of Konover Property Trust, Inc. and the holders of unexercised options with exercise prices of less than the consideration per share to be paid to the holders of common stock.
4) Proposed maximum aggregate value of transaction: $32,806,136 (calculated on the basis of (1) 15,299,092 outstanding shares of common stock that will receive the merger consideration multiplied by the transaction price of $2.10, plus (2) the product of (A) 448,403 shares which are subject to options to purchase shares with an exercise price of less than $2.10 per share and (B) the difference between $2.10 per share and the exercise price of such options).
5) Total fee paid: $7,560

x Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Table of Contents

KONOVER PROPERTY TRUST, INC.

October 21, 2002

Dear Stockholder:

On behalf of our board of directors, I cordially invite you to attend a special meeting of stockholders of Konover Property Trust, Inc. to be held at the Omni Berkshire Place, 21 East 52nd Street at Madison Avenue, New York, New York.

At the special meeting, we will ask you to consider and vote upon a proposal to approve a merger between PSCO Acquisition Corp. and Konover Property Trust, Inc., and the merger agreement governing the merger. PSCO Acquisition Corp. is a newly formed Maryland corporation. It is owned by Prometheus Southeast Retail Trust, a Maryland real estate investment trust and an owner of approximately 66% of our common stock, and Kimkon Inc., a Delaware corporation and an indirect wholly owned subsidiary of Kimco Realty Corporation (NYSE: KIM), a Maryland corporation. Under the merger agreement, PSCO Acquisition Corp. will be merged with Konover, with Konover surviving the merger. At the special meeting, we will also ask you to consider and vote upon a proposal to approve certain amendments to our charter contemplated by the merger agreement. None of these amendments will become effective unless the merger proposal is approved and the merger is consummated. If the proposals are approved, you will be entitled to receive $2.10 in cash for each share of Konover common stock that you hold. Following the merger, Konover will continue its operations as a privately held company under the name Kimsouth Realty Inc. More detailed information about the proposals is included in the accompanying proxy statement. Copies of the merger agreement and an amendment to the merger agreement are attached as Appendices A1 and A2 to the proxy statement. You should read carefully the accompanying material.

The board of directors, after careful consideration and based on various factors, including the unanimous recommendation of a special committee of the board, has determined that the merger, merger agreement, and charter amendments are advisable and in the best interests of Konover and are fair to Konover and our unaffiliated stockholders. The board of directors unanimously approved the merger, merger agreement, and charter amendments and recommends that you vote ***For*** *approval of each of the proposals.*

To ensure that your shares are represented at the meeting, please complete, sign and date the enclosed proxy card and return it in the enclosed postage prepaid envelope as soon as possible. This will allow your shares to be represented at the meeting. Returning your proxy card will not prevent you from voting in person, but it will ensure that your vote will be counted if you are unable to attend the meeting. The failure to submit a proxy card or vote at the meeting will have the same effect as a vote against the proposals.

Sincerely,
J. Michael Maloney
Chief Executive Officer

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THIS TRANSACTION, PASSED UPON THE MERITS OR FAIRNESS OF THIS TRANSACTION, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Table of Contents

KONOVER PROPERTY TRUST, INC.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held on November 22, 2002

You are cordially invited to attend the special meeting of stockholders of Konover Property Trust, Inc. to be held on Friday, November 22, 2002, at 9:00 a.m., at the Omni Berkshire Place, 21 East 52nd Street at Madison Avenue, New York, New York for the following purposes:

1. To consider and vote upon a proposal to approve a merger of PSCO Acquisition Corp. (**PSCO**) and Konover, and the Agreement and Plan of Merger, dated June 23, 2002, as amended on July 26, 2002 between PSCO and Konover. The merger will result in:

   PSCO merging with and into Konover, with Konover surviving the merger. Prometheus Southeast Retail Trust, which currently owns approximately 66% of our outstanding common stock, and Kimkon Inc., an indirect wholly owned subsidiary of Kimco Realty Corporation (NYSE: KIM), will own all of the outstanding shares of Konover common stock after the merger is completed. Additionally, immediately before the merger, PSCO will issue shares of redeemable preferred stock to approximately 100 individuals in order to ensure that Konover maintains its REIT status after the merger. In the merger, PSCO s newly issued shares of redeemable preferred stock will be converted into shares of a newly created series of redeemable preferred stock; and

   Each share of Konover common stock outstanding immediately before the effective time of the merger, other than 16,615,922 shares of Konover common stock that Prometheus will contribute to PSCO immediately before the merger, being converted into the right to receive $2.10 in cash, which may be reduced for persons subject to applicable withholding taxes.

2. To consider and vote upon a proposal to adopt certain amendments to our charter in the manner contemplated by the merger agreement, which amendments are described in the proxy statement.

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

Only common stockholders of record at the close of business on September 23, 2002 will be entitled to vote at the meeting or any adjournments.

Whether or not you expect to attend the meeting, please complete, date, and sign the enclosed proxy card and mail it promptly in the enclosed envelope in order to ensure representation of your shares. No postage need be affixed if you mail the proxy card in the United States.

By Order of the Board of Directors
Marcus B. Liles, III
Vice President, General Counsel and Secretary

Table of Contents

Konover Property Trust, Inc.
3434 Kildaire Farm Road, Suite 200
Raleigh, North Carolina 27606

Proxy Statement
for
Special Meeting of Stockholders

To Be Held on November 22, 2002

This proxy statement is furnished in connection with the solicitation by the board of directors of Konover Property Trust, Inc. (Konover, we or us) of proxies for use at the special meeting of stockholders to be held on Friday, November 22, 2002, at 9:00 a.m., local time, at the Omni Berkshire Place, 21 East 52nd Street at Madison Avenue, New York, New York.

This proxy statement and the accompanying proxy were first mailed to our stockholders on or about October 24, 2002.

As of September 23, 2002, the record date, we had 31,915,014 shares of our common stock, par value $0.01 per share, outstanding. Only common stockholders of record at the close of business on the record date are entitled to vote at the meeting. Each stockholder will be entitled to one vote for each share of common stock held by such stockholder on the record date. At the meeting, our stockholders will be asked to approve (1) the merger of PSCO and Konover and the merger agreement governing the merger, and (2) certain amendments to our charter contemplated by the merger agreement. The affirmative vote of a majority of the votes entitled to be cast at the meeting is required to approve the merger proposal. The charter proposal is contingent upon the approval of the merger proposal. The affirmative vote of a majority of the votes entitled to be cast at the meeting is required to approve the charter proposal, except for certain additional charter amendments principally relating to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock. The additional charter amendments require the affirmative vote on the charter proposal of at least two-thirds of the votes entitled to be cast at the meeting. Thus, if holders of at least two-thirds of the votes entitled to be cast approve the charter proposal and the merger is completed, the surviving corporation s charter will contain the additional charter amendments. However, approval of the additional charter amendments is not a condition to completing the merger. We have included, as Appendices A1 and A2 to this proxy statement, the merger agreement and an amendment to the merger agreement. Two alternate forms of the surviving corporation s charter are attached as Exhibits B-1 and B-2 to the amendment to the merger agreement. The form of charter attached as Exhibit B-1 contains all of the proposed charter amendments, including those requiring the affirmative vote of two-thirds of the votes entitled to be cast at the meeting. The form of charter attached as Exhibit B-2 contains only those proposed charter amendments that require the affirmative vote of a majority but less than two-thirds of the votes entitled to be cast at the meeting. The alternate charter forms are substantially identical, other than those amendments requiring a two-thirds vote. Prometheus Southeast Retail Trust, which currently owns approximately 66% of our common stock, has entered into a voting agreement with us and Kimkon Inc. The voting agreement obligates Prometheus to vote in favor of the merger proposal and the charter proposal.

Our board of directors has, after taking into account various factors as described in this proxy statement, including the unanimous recommendation of a special committee of the board of directors, unanimously approved the merger, the merger agreement, and the charter amendments, determining them to be advisable and in the best interests of Konover and fair to Konover and our unaffiliated stockholders. The board of directors recommends that you vote **For** approval of each of the proposals.

Table of Contents

To ensure that your shares are represented at the special meeting, please complete, sign, and date the enclosed proxy card and return it in the enclosed postage prepaid envelope. If you complete, date, sign, and return your proxy card without indicating how you wish to vote, your proxy will be counted as a vote for both the merger proposal and the charter proposal. If you fail to return your proxy card and fail to vote at the special meeting, the effect will be the same as a vote against the proposals. Returning the proxy card does not deprive you of your right to attend the special meeting and vote your shares in person.

We will pay the expense of soliciting proxies. Proxies will be solicited by mail and may also be solicited by telephone calls or personal calls by our officers, directors, or employees, none of whom will be specially compensated for soliciting proxies. We estimate the total expenses of soliciting proxies, including printing and postage, to be approximately $60,000.

TABLE OF CONTENTS

Summary Term Sheet	1
Questions and Answers About the Merger Proposal and the Charter Proposal	7
Summary	12
Parties Involved in the Merger	12
Merger Description	15
Charter Amendments	17
Special Meeting and Voting	17
Selected Merger Agreement Provisions	18
Financing, Tax, and Accounting Matters	21
Further Information	21
Selected Financial and Other Information	22
The Special Meeting	32
Date, Time and Place of the Special Meeting	32
Purpose of the Special Meeting	32
Record Date and Voting Power	32
Quorum and Vote Required	32
Proxies, Voting and Revocation	33
Solicitation of Proxies and Expenses	33
The Parties Involved in the Merger	34
Konover	34
KPT Properties, L.P.	35
KPT Acquisition, L.P.	35
PSCO Acquisition Corp.	36
The Prometheus Parties	37
Special Factors	39
Background of the Merger	39
Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors	63
Opinion of the Special Committee s Financial Advisor	69
PSCO s and the Prometheus Parties Position as to the Fairness of the Merger	75
Vote Required to Approve the Merger Proposal and the Charter Proposal	78
Interests of Directors and Officers in the Merger	78
Purpose of the Merger	82
Effects of the Merger	83
Future Plans	85
Financing for the Merger	87
Estimated Fees and Expenses of the Merger	87
Expected Accounting Treatment of the Merger	88
Material Federal Income Tax Considerations	88
Litigation Challenging the Merger	89
Events Relating to the Former Holders of Series A Convertible Preferred Stock.	90

Table of Contents

The Merger and Related Agreements	92
The Merger Structure	92
The Merger	93
Conversion of Stock and Options	94
PSCO Stock	94
Konover Common Stock	94
Konover Series A Convertible Preferred Stock	94
Appraisal Rights	95
Treatment of Stock Options, Purchase Rights, Repurchase Rights, and Warrants	95
Procedures for Exchange of Stock and Options	95
Representations and Warranties	96
Conduct of Konover's Business Before the Merger	97
Additional Agreements	98
Conditions to the Merger	102
Termination of the Merger Agreement	104
Amendments, Extensions, and Waivers	105
Co-Investment Agreement	105
Voting Agreement	108
Supplemental Voting and Tender Agreement	108
Other Agreements	109
Proposal Regarding Charter Amendments	111
Information Concerning Konover	122
Market for Konover Common Stock	122
Market for Knover Series A Convertible Preferred Stock	122
Common Stock Purchase Information	123
Preferred Stock Purchase Information	124
Security Ownership of Certain Beneficial Owners and Konover Management	125
Stockholder Proposals For 2002 Annual Meeting	127
Independent Auditors	127
Where You Can Find More Information	128
Forward-Looking Statements	129

APPENDIX A1	Agreement and Plan of Merger, dated as of June 23, 2002, by and between PSCO Acquisition Corp. and Konover Property Trust, Inc.
APPENDIX A2	Amendment No. 1 to the Agreement and Plan of Merger, dated as of July 26, 2002, by and between PSCO Acquisition Corp. and Konover Property Trust, Inc.
APPENDIX B	Voting Agreement, dated as of June 23, 2002, by and between Prometheus Southeast Retail Trust, Konover Property Trust, Inc., and Kimkon Inc.

Table of Contents

APPENDIX C	Supplemental Voting and Tender Agreement, dated as of June 23, 2002, by and between Prometheus Southeast Retail Trust and Konover Property Trust, Inc.
APPENDIX D1	Co-Investment Agreement, dated as of June 23, 2002, by and among Prometheus Southeast Retail Trust, Kimkon Inc., PSCO Acquisition Corp., LF Strategic Realty Investors II L.P., LFSRI II CADIM Alternative Partnership L.P., LFSRI II Alternative Partnership L.P., and Kimco Realty Corporation.
APPENDIX D2	Amendment No. 1 to the Co-Investment Agreement, dated as of July 26, 2002, by and among Prometheus Southeast Retail Trust, Kimkon Inc., PSCO Acquisition Corp., LF Strategic Realty Investors II L.P., LFSRI II CADIM Alternative Partnership L.P., LFSRI II Alternative Partnership L.P., and Kimco Realty Corporation.
APPENDIX E	Opinion of Credit Suisse First Boston Corporation, dated June 23, 2002.
APPENDIX F	Information Relating to the Directors and Executive Officers of the Prometheus Parties.
APPENDIX G	Information Relating to Kimco, Kimco Realty Services, Kimkon, and the Directors and Executive Officers of Kimco.
APPENDIX H	Information Relating to the Directors and Executive Officers of PSCO Acquisition Corp.
APPENDIX I	Information Relating to the Directors and Executive Officers of Konover Property Trust, Inc.
APPENDIX J	Annual Report on Form 10-K for the Fiscal Year ended December 31, 2001.
APPENDIX K	Quarterly Report on Form 10-Q for the Fiscal Quarter ended March 31, 2002.
APPENDIX L	Quarterly Report on Form 10-Q for the Fiscal Quarter ended June 30, 2002.

Table of Contents

Summary Term Sheet

The following summary briefly describes the material terms of the proposed acquisition of Konover by PSCO Acquisition Corp., a newly formed Maryland corporation (**PSCO**). PSCO is owned by Prometheus Southeast Retail Trust (**Prometheus**), a Maryland real estate investment trust that currently owns approximately 66% of our common stock, and Kimkon Inc. (**Kimkon**), a Delaware corporation and an indirect wholly owned subsidiary of Kimco Realty Corporation (NYSE: KIM), a Maryland corporation (**Kimco**). While this summary describes the material terms that you should consider when evaluating the merger proposal and the charter proposal you will vote on at the special meeting, the information throughout this proxy statement contains a more detailed description of the proposals. You should read carefully the proxy statement in its entirety before voting. We have included page references to direct you to more complete descriptions of the topics described in this summary term sheet.

PSCO:	The buyer is PSCO, a newly formed Maryland corporation. As of the date of this proxy statement, PSCO is wholly owned by Prometheus and Kimkon. See The Parties Involved in the Merger beginning on page 34.
Transaction Structure:	
OP Transfer:	Prior to the closing date of the merger of PSCO and Konover, we will cause our wholly owned subsidiary, KPT Properties Holding Corp., to transfer (the **OP Transfer**) to Konover substantially all of the partnership interests (**OP Units**) that KPT Properties Holding Corp. currently holds in KPT Properties, L.P. (the **Operating Partnership**), the limited partnership through which we conduct substantially all of our operations.
OP Merger:	On the closing date of the merger of PSCO and Konover, after the OP Transfer but before the consummation of the merger, we will cause KPT Acquisition, L.P., a newly formed, wholly owned Delaware limited partnership, to be merged (the **OP Merger**) with and into the Operating Partnership, with the Operating Partnership being the surviving entity. Pursuant to the OP Merger, each OP Unit in the Operating Partnership, other than those we directly or indirectly own, will be converted into the right to receive a cash payment in an amount equal to the merger consideration to be paid to our common stockholders in the merger of PSCO and Konover.
OP Distribution:	Immediately after the OP Merger but before the consummation of the merger of PSCO and Konover, we will cause the Operating Partnership to distribute $12,000,000.00 of cash to Konover (the **OP Distribution**) which will be used to pay a portion of the consideration payable in the merger of PSCO and Konover.

Table of Contents

Contribution by Prometheus to PSCO:	On the closing date of the merger of PSCO and Konover, but before it is consummated, Prometheus, in exchange for additional PSCO equity interests, will contribute to PSCO 16,615,922 shares of Konover common stock and all of Prometheus rights and obligations under the contingent value right agreement between Prometheus and Konover. These 16,615,922 shares will be canceled at the effective time of the merger without any payment or other consideration. See The Merger and Related Agreements Co-Investment Agreement beginning on page 105.
Contribution by Kimkon to PSCO:	On the closing date of the merger of PSCO and Konover, but before it is consummated, Kimkon, in exchange for additional PSCO equity interests, will contribute to PSCO approximately $35.6 million, which cash will be used to pay a portion of the merger consideration. See The Merger and Related Agreements Co-Investment Agreement beginning on page 105.
Issuance of Redeemable Preferred Stock by PSCO:	On the closing date of the merger of PSCO and Konover, but before it is consummated, PSCO will issue up to 150 shares of redeemable preferred stock to approximately 100 individuals in order to ensure that Konover maintains its REIT status after the merger. Only individuals who are accredited investors as that term is defined in Rule 501(a) of the Securities Act of 1933, as amended, will be entitled to receive the shares of PSCO redeemable preferred stock. PSCO has not yet determined the individuals to whom it will issue the shares of PSCO redeemable preferred stock, however, it is expected that approximately fifty shares will be issued to certain individuals to be selected by Prometheus and the remainder to certain individuals to be selected by Kimco. In the merger, each share of PSCO redeemable preferred stock will be converted into one share of a newly created series of redeemable preferred stock.
Merger:	At the effective time of the merger, PSCO will be merged with Konover, with Konover as the surviving corporation. Shares of PSCO capital stock will be converted into shares of Konover capital stock on a one-for-one basis.
Stockholder Vote:	We are asking you to consider and vote upon the following two proposals: Proposal one involves approving the Agreement and Plan of Merger, dated June 23, 2002, as amended on July 26, 2002, between Konover and PSCO, and the merger contemplated by the merger agreement. We refer to this proposal as the **merger proposal**, or sometimes as **proposal one** , throughout this proxy statement. The affirmative vote of a majority of the votes entitled to be cast at the meeting is required to approve this proposal. The Agreement and Plan of Merger and amendment no. 1 to this agreement are attached as Appendices A1 and A2 to this proxy statement. Proposal two involves approving certain amendments to our charter in the manner contemplated by the merger agreement. We refer to this proposal as the **charter proposal** or **proposal two** throughout this proxy statement, and sometimes refer to proposal one and proposal two as the proposals throughout the proxy statement. Approval of most of the amendments contained in the charter proposal requires the affirmative vote of a majority of the votes entitled to be cast at the meeting. However, certain charter amendments contained in the charter proposal principally relating to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock require the approval of two-thirds of the votes entitled to be cast. Thus, if holders of at least two-thirds of the votes entitled to be cast approve proposal two, the charter of the surviving corporation will contain those additional charter amendments. The alternate charter forms,

Table of Contents

which are attached as Exhibits B-1 and B-2 to amendment no. 1 to the merger agreement, are substantially identical, other than those amendments requiring a two-thirds vote. See Proposal Regarding Charter Amendments beginning on page 111 for a description of the material differences between the forms of the surviving corporation s charter.

If proposal one is not approved by the requisite vote, then proposal two will not be deemed to have been approved, regardless of the votes cast to approve proposal two.

Approval of the charter amendments in proposal two, other than the amendments requiring a two-thirds vote, is a condition to completion of the merger. Approval of the charter amendments in proposal two that require a two-thirds vote is not a condition to completion of the merger.

If the common stockholders wish to approve the merger, they should also approve the charter proposal.

As of the record date, Prometheus owned 21,052,631 shares of our common stock, which is approximately 66%, and has entered into an agreement to vote in favor of the merger proposal and charter proposal. Assuming Prometheus votes in favor of the merger proposal and the charter proposal, the merger, merger agreement and the charter amendments not requiring a two-thirds vote will be approved. Accordingly, the vote of our unaffiliated stockholders is not needed to approve the merger, merger agreement or the charter amendments requiring a majority vote, and our unaffiliated stockholders do not have the ability to defeat the merger proposal or the charter proposal, other than those charter amendments contained in the charter proposal which require a two-thirds vote. See The Special Meeting beginning on page 32 and The Merger and Related Agreements Voting Agreement beginning on page 108.

Payment: Upon completion of the merger, you will be entitled to receive $2.10 in cash, without interest, for each share of Konover common stock that you own. You will not own any shares of Konover common stock or any other interest in Konover after the merger is completed. Each outstanding option to purchase shares of Konover common stock will be canceled at the effective time of the merger, and each option with an exercise price of less than $2.10 per share will be converted into the right to receive a cash payment, without interest, equal to the difference between $2.10 and the exercise price of the option, multiplied by the number of shares of common stock subject to the option. Options with an exercise price equal to or greater than $2.10 per share, however, will be canceled at the effective time of the merger without any payment or other consideration. See The Merger and Related Agreements Conversion of Stock and Options beginning on page 94.

Dividends: Under the terms of the merger agreement, we are not permitted to declare dividends before the merger closes, unless we need to do so in order to preserve our REIT status. We currently do not expect that will be necessary. After the merger is completed, you will not own any stock of Konover and, therefore, will not receive any dividends for any period following the merger. See Special Factors Effects of the Merger beginning on page 83.

Appraisal Rights: Under Maryland law, since our common stock is listed on the New York Stock Exchange, our common stockholders do not have the right to receive the appraised value of their shares in connection with the merger. If you do not vote
in favor of the proposals and the merger takes place anyway, you will be bound by

	the terms of the merger agreement and will receive $2.10 per share (less applicable withholding taxes, if any) for each share of Konover common stock you own at the time of the merger.
Special Committee:	The special committee is a committee of our board of directors that, in consultation with its own legal and financial advisors, evaluated and negotiated the merger, including the terms of the merger agreement with PSCO. The special committee consists solely of directors who are not officers or employees of Konover or of any affiliate of Konover (including Prometheus) and who have no financial interest in the merger different from Konover stockholders generally. The members of the special committee are William D. Eberle, Carol R. Goldberg and L. Glenn Orr, Jr.
Fairness of the Merger:	The special committee and our board of directors, after careful consideration and based on various factors, have each determined that the merger agreement, the merger, and the charter amendments are advisable and in the best interests of Konover and fair to Konover and our unaffiliated stockholders. Our board of directors unanimously recommends that you vote **For** the merger proposal and the charter proposal. After careful consideration and based on various factors, PSCO and the parties described as the Prometheus Parties on page 13, have each determined that the merger is fair to our unaffiliated stockholders. The special committee received an oral opinion, confirmed by delivery of a written opinion dated June 23, 2002, from its financial advisor, Credit Suisse First Boston Corporation (**Credit Suisse First Boston**) to the effect that, as of the date of the opinion and based on and subject to matters described in the opinion, the cash consideration to be received in the merger was fair, from a financial point of view, to our common stockholders other than PSCO and its affiliates. The full text of Credit Suisse First Boston s written opinion is attached to this proxy statement as Appendix E. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered, and limitations on the review undertaken. **Credit Suisse First Boston s opinion is addressed to the special committee and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the merger.** See Special Factors Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors beginning on page 63 and Opinion of the Special Committee s Financial Advisor beginning on page 69.
Tax Consequences:	Generally, the merger will be taxable for U.S. federal income tax purposes to Konover stockholders. You will recognize taxable gain or loss in the amount of the difference between $2.10 and your adjusted tax basis for each share of Konover common stock that you own. See Special Factors Material Federal Income Tax Considerations beginning on page 88.
Conditions:	The merger is subject to approval by the holders of a majority of the outstanding shares of our common stock. Approval of the merger proposal is a condition to the effectiveness of the charter amendments contained in the charter proposal. Approval of the charter proposal by the holders of a majority of the outstanding shares of our common stock is a condition to completing the merger. However, approval of the additional charter amendments which require a two-thirds vote is not a condition to completing the merger. Other conditions required to complete the merger include that no court or governmental entity has imposed an order or injunction prohibiting the merger, and that no event has occurred that has resulted in or would reasonably be likely to result in a material adverse effect on Konover.

See The Merger and Related Agreements Conditions to the Merger beginning on page 102.

Your Vote:

Only our common stockholders of record as of the close of business on September 23, 2002 may vote at the meeting. If you mail your completed, signed and dated proxy card in the enclosed envelope as soon as possible, your shares will be voted at the meeting even if you are unable to attend the meeting. If your shares are held in street name, you should give your broker or nominee instructions on how to vote. You may change your vote at any time before the vote is tabulated at the meeting. For shares held directly in your name, you may do this by sending a new proxy or a written revocation to our secretary or by attending the meeting and voting there. For shares held in street name, you may change your vote only by giving new voting instructions to your broker or nominee. Failure to submit a proxy or vote at the meeting will have the same effect as a vote against the merger proposal and the charter proposal. Do not send your stock certificates now. Hold your certificates until you receive written instructions from us that will tell you how to exchange your certificates for $2.10 per share in cash, less any applicable withholding taxes. If you held your shares on the record date but transfer those shares after the record date but before the meeting, you will retain your right to vote but not the right to receive the merger consideration.

Interests of Certain Persons in the Merger:

In considering the recommendation of the special committee and our board of directors, you should be aware that some of our directors and members of our management team may have interests in the merger that are different from, or in addition to, yours, which interests may create potential conflicts of interest. See Special Factors Interests of Directors and Officers in the Merger beginning on page 78. These interests include:

On the record date, Prometheus, which is one of the stockholders of PSCO, owned approximately 66% of our common stock. One of our directors, Mark. S. Ticotin, is a director of PSCO and a Managing Principal of Lazard Freres Real Estate Investors L.L.C., the general partner of the investment funds that indirectly own Prometheus. Under SEC rules, as a result of his position with Lazard Freres Real Estate Investors L.L.C., Mr. Ticotin may be deemed to beneficially own 66% of our outstanding common stock. Mr. Ticotin disclaims any beneficial ownership he may be deemed to have of any shares of our common stock. See Information Concerning Konover Security Ownership of Certain Beneficial Owners and Konover Management beginning on page 125.

Our board of directors, executive officers, and their affiliates, excluding Prometheus and our director Mr. Ticotin, together owned less than 40,000 shares of our common stock (including approximately 31,000 shares of our common stock issuable upon redemption of OP Units in the Operating Partnership held by our director Simon Konover and his affiliate), or less than 1%, on the record date.

Several key employees and officers are parties to employment or severance agreements pursuant to which they will receive a severance package upon their termination in connection with certain events, such as the merger.

As of the record date, our executive officers collectively held 110,008 options with exercise prices below $2.10, with an aggregate payment pursuant to the merger of approximately $176,000.

Under the merger agreement, the surviving corporation will indemnify each present and former director, officer and employee of Konover against costs and expenses relating to such person s service to Konover.

Messrs. Ross, Ticotin and Zobler, who are directors of Konover, are affiliated with the Prometheus Parties.

After the Merger:	Upon completion of the merger, Prometheus and Kimkon will own 100% of our common stock. In order to maintain our REIT status following the merger, PSCO will issue up to 150 shares of its redeemable preferred stock to approximately 100 individuals before the merger. In the merger, these shares of redeemable preferred stock will be converted into shares of our newly created Series B redeemable preferred stock. Our existing common stockholders, however, will cease to have ownership interests in us or rights as Konover stockholders. As a result, if the merger is completed, you will not participate in any future earnings, losses, growth or decline of Konover. After the merger, Konover will no longer be a public company and our common stock will no longer be listed or traded on the New York Stock Exchange. See Special Factors Effects of the Merger beginning on page 83.

Questions and Answers About the Merger Proposal and the Charter Proposal

Q: What am I being asked to vote upon?

A: We are asking you to consider and vote upon a proposal to approve the merger agreement and the merger. Approval by the holders of a majority of our outstanding shares of common stock is required to approve the merger proposal. We are also asking you to consider and vote upon a proposal to approve certain charter amendments in the manner contemplated by the merger agreement. Most of these charter amendments require approval by the holders of a majority of our outstanding shares of common stock. Certain additional charter amendments, principally relating to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock, require approval by the holders of two-thirds of our outstanding common stock. Thus, if holders of at least two-thirds of the votes entitled to be cast approve proposal two, the charter of the surviving corporation will contain all the proposed charter amendments, including the additional charter amendments. However, completing the merger is not conditioned upon approval of those additional charter amendments. Thus, if a majority of the votes entitled to be cast vote to approve the merger proposal and the charter proposal, the merger will occur and PSCO and Konover will merge, with Konover surviving the merger. Upon completion of the merger, Konover will no longer be a public company, and you will no longer own any Konover common stock.

Q: How much will I receive for my shares of Konover common stock in the merger?

A: If the merger is completed, you will receive $2.10 per share in cash (less applicable withholding taxes, if any) for each share of Konover common stock you own at the time of the merger, and you will have no interest in the surviving corporation. See The Merger and Related Agreements Conversion of Stock and Options beginning on page 94.

Q: What if I have options to purchase shares of Konover common stock?

A: If you hold options to purchase shares of our common stock at an exercise price of less than $2.10 per share, you will receive a cash payment equal to the difference between $2.10 and the exercise price multiplied by the number of shares subject to your options. If your options exercise price is $2.10 or more, your options will be canceled in the merger without any payment or other consideration. See The Merger and Related Agreements Conversion of Stock and Options beginning on page 94.

Q: Will I have to pay taxes on the consideration I receive in the merger?

A: If you hold shares of our common stock, the receipt of cash in the merger will generally be a taxable transaction to you in the same way as if you sold your shares for $2.10 per share in cash. See Special Factors Material Federal Income Tax Considerations beginning on page 88. If you receive payment for your options as described above, the payment generally will be treated as ordinary income.

Q: What will happen to Konover and our stockholders in the merger?

A: As a result of the merger:

Konover, the surviving corporation in the merger, will become owned entirely by Prometheus and Kimkon (with the exception of shares of a newly created series of redeemable preferred stock that will be issued to holders of PSCO s redeemable preferred stock in connection with maintaining Konover s REIT status after the merger);

Konover common stockholders, except for PSCO, will receive cash in exchange for their shares and will no longer have any interest in the future earnings, losses, growth or decline of Konover. Prometheus will

contribute 16,615,922 shares of Konover common stock to PSCO before the merger. These 16,615,922 shares will be canceled in the merger;

Konover will no longer be a public company; and

Konover s common stock will no longer be listed or traded on the New York Stock Exchange.

See The Merger and Related Agreements beginning on page 92 and Special Factors Effects of the Merger beginning on page 83.

Q: Will I receive any dividends between now and the merger?

A: In an effort to conserve cash until we determined our ultimate strategy, our board of directors ceased declaring dividends in the second quarter of 2001. The merger agreement does not permit us to declare any dividends before the merger closes, unless we need to do so in order to preserve our REIT status. However, we currently do not expect that will be necessary. Once the merger is completed, you will no longer own any stock of Konover and, therefore, will not receive any dividends for any period following the merger. See Special Factors Effects of the Merger beginning on page 83.

Q: How does Konover s board of directors recommend I vote?

A: Our board of directors, after careful consideration and based on various factors, including the unanimous recommendation of the special committee, has determined that the merger, merger agreement, and charter amendments are advisable and in the best interests of Konover and are fair to Konover and our unaffiliated stockholders. Accordingly, our board of directors unanimously approved the merger, the merger agreement, and the charter amendments. Our board of directors recommends that you vote to approve the merger proposal and the charter proposal. As of the record date, Prometheus owned approximately 66% of our common stock and has entered into a voting agreement obligating it to vote **For** the merger proposal and the charter proposal. Our board of directors, executive officers, and their affiliates, excluding Prometheus and our director Mark S. Ticotin, who is a Managing Principal of Lazard Freres Real Estate Investors L.L.C., the general partner of the investment funds that indirectly own Prometheus, together owned less than 40,000 shares of our common stock (including approximately 31,000 shares of our common stock issuable upon redemption of OP Units in the Operating Partnership held by our director Simon Konover and his affiliate), or less than one percent, as of the record date. Our board of directors, executive officers, and their affiliates, including Mr. Ticotin and Prometheus, owned approximately 66% of our outstanding common stock as of the record date. See Special Factors Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors beginning on page 63.

Q: Are there any conditions to completing the merger?

A: In addition to obtaining stockholder approval, which is assured pursuant to the Prometheus voting agreement noted above, the merger is also subject to the following conditions:

Both Prometheus and Kimkon must have made certain contributions to PSCO in accordance with a co-investment agreement among Prometheus and its affiliates, Kimkon, and Kimco.

Our subsidiary, KPT Properties Holding Corp., must have transferred to Konover substantially all of its OP Units in the Operating Partnership.

The Operating Partnership must have merged with a newly formed limited partnership owned by Konover. In this, the OP Merger, the Operating Partnership will be the surviving entity and the Operating Partnership s limited partners, other than Konover and our subsidiaries, will receive a cash payment per OP Unit equal to the $2.10 per share payment our common stockholders (other than PSCO) will receive in the merger of PSCO and Konover.

Following the OP Merger, the Operating Partnership must make a $12.0 million distribution to Konover. This OP Distribution will be used in part to pay the merger consideration to you.

Konover must deliver to PSCO letters of resignation from each member of our board of directors, other than from Messrs. Ross, Ticotin, and Zobler (the directors who were nominated by Prometheus), for such resignation to be effective as of the closing.

Other customary closing conditions.

See The Merger and Related Agreements Conditions to the Merger beginning on page 102.

Q: What vote is required to approve the merger?

A: Approval of the merger proposal requires the affirmative vote of the holders of a majority of the outstanding shares of Konover common stock on the record date, or 15,957,508 shares. Also, a condition to completing the merger is the approval of the charter proposal by the holders of a majority of the outstanding shares of Konover common stock on the record date. Abstentions will have the same effect as a vote against the merger proposal and the charter proposal. In connection with the execution of the merger agreement, Prometheus entered into a voting agreement with Konover and Kimkon. The voting agreement obligates Prometheus to vote in favor of approving the merger proposal and the charter proposal. As of the record date, Prometheus owned 21,052,631 shares of Konover common stock, representing approximately 66% of the outstanding voting power of Konover. See The Special Meeting Quorum and Vote Required beginning on page 32.

Q: What vote is required to approve the amendments to the charter?

A: The form of the charter of the surviving corporation will depend on whether the holders of at least two-thirds or only a majority of our outstanding shares of common stock vote to approve the charter proposal. Most of the charter amendments must be approved by the affirmative vote of the holders of a majority of our outstanding shares of common stock on the record date, or 15,957,508 shares. Approval of these charter amendments is a condition to completing the merger. Certain additional charter amendments that relate principally to the ability of our board of directors to classify or reclassify unissued stock and to stock transfer restrictions must be approved by the holders of two-thirds of our outstanding shares of common stock on the record date, or 21,276,676. Approval of these additional charter amendments is not a condition to completing the merger. Abstentions will have the same effect as a vote against the charter proposal. As noted above, the voting agreement obligates Prometheus, which owned 21,052,631 shares of Konover common stock on the record date, representing approximately 66% of the outstanding voting power of Konover, to vote its shares in favor of approving the charter proposal and the merger proposal. See The Special Meeting Quorum and Vote Required beginning on page 32, The Merger and Related Agreements The Merger Amendment to Charter beginning on page 93, and Proposal Regarding Charter Amendments beginning on page 111.

Q: If I will not have a continuing interest in Konover after the merger, why are you asking me to vote on the charter amendments?

A: We are incorporated in Maryland. Maryland law requires that charter amendments be approved by common stockholders. As of the record date, you are a common stockholder.

Q: Can the stockholders other than Prometheus defeat the merger proposal?

A: No. As noted above, Prometheus has entered into a voting agreement obligating it to vote in favor of the merger proposal and the charter proposal. Assuming Prometheus votes in favor of the merger proposal and the charter proposal, the merger and the merger agreement will be approved.

Q: Can the stockholders other than Prometheus defeat the charter proposal?

A: The stockholders other than Prometheus cannot defeat the charter amendments that require only a majority of our outstanding shares of common stock. As noted above, Prometheus has entered into a voting agreement obligating it to vote in favor of the charter proposal and the merger proposal. Assuming Prometheus votes in favor of this proposal and the merger proposal, the charter amendments not requiring a two-thirds vote will be approved. However, Prometheus alone does not hold two-thirds of our outstanding shares of common stock, and therefore, in order to approve the charter amendments requiring a two-thirds vote, at least some of our unaffiliated stockholders also need to vote in favor of the charter proposal.

Q: Can the charter proposal be approved if the merger proposal is not approved?

A: No. If the merger proposal is not approved, the charter amendments will not become effective, even if the charter proposal received the affirmative vote of a majority or two-thirds of our outstanding common stock.

Q: Can the merger proposal be approved if the charter proposal is not approved?

A: No. If the charter proposal is not approved by at least a majority of the holders of our outstanding common stock, the merger will not become effective, even if the merger proposal received the affirmative vote of a majority of our outstanding common stock. However, the merger proposal can be approved even if the charter proposal does not receive the affirmative vote of two-thirds of our outstanding common stock, provided that the charter proposal receives the affirmative vote of at least a majority of our outstanding common stock.

Q: What rights do I have if I oppose either the merger proposal or the charter proposal?

A: You can vote against the merger proposal by indicating a vote against such proposal on your proxy card and signing and mailing your proxy card, or by voting against the proposal in person at the meeting. You can vote against the charter proposal by indicating a vote against such proposal on your proxy card and signing and mailing your proxy card, or by voting against the proposal in person at the meeting. Failure to submit a proxy or vote at the meeting will have the same effect as a vote against the proposals. Under Maryland law, since our common stock is listed on the New York Stock Exchange, our common stockholders do not have the right to receive the appraised value of their shares in connection with the merger. If you do not vote in favor of the proposals and the merger takes place anyway, you will be bound by the terms of the merger agreement and will receive $2.10 per share (less applicable withholding taxes, if any) for each share of Konover common stock you own at the time of the merger.

Q: When and where will the special meeting be held?

A: The special meeting will be held at the Omni Berkshire Place, 21 East 52nd Street at Madison Avenue, New York, New York, on Friday, November 22, 2002, at 9:00 a.m., local time. See The Special Meeting beginning on page 32.

Q: Who can vote?

A: Only our common stockholders of record as of the close of business on September 23, 2002 may vote at the meeting. See The Special Meeting Record Date and Voting Power beginning on page 32.

Q: What other matters will be voted on at the special meeting?

A: Maryland law and our bylaws do not permit any other matters to be presented at the special meeting except related procedural matters, including adjournment of the meeting to a later date.

Q: How can I vote shares held in my broker s name?

A: If your broker or another nominee holds your shares in its name (or in what is commonly called street name), then you should give your broker or nominee instructions on how to vote. Otherwise, your shares will not be voted and will have the same effect as a vote against the merger proposal and the charter proposal. Your broker will provide you directions regarding how to instruct your broker to vote your shares. See The Special Meeting Proxies, Voting and Revocation beginning on page 33.

Q: Can I change my vote?

A: You may change your vote at any time before the vote is tabulated at the meeting. For shares held directly in your name, you may do this by sending a new proxy or a written revocation to Konover s secretary or by attending the meeting and voting there. Attending the meeting alone will not change the vote in the proxy you sent, unless you vote at the meeting. For shares held in street name, you may change your vote only by giving new voting instructions to your broker or nominee. See The Special Meeting Proxies, Voting and Revocation beginning on page 33.

Q: What should I do now?

A: Please vote. If you mail your completed, signed, and dated proxy card in the enclosed envelope as soon as possible, your shares will be voted at the meeting even if you are unable to attend. No postage is required if the proxy card is returned in the enclosed postage prepaid envelope and mailed in the United States.

Q: What does it mean if I receive more than one proxy card?

A: It means your shares are registered differently or are held in more than one account. Please complete, sign, date, and mail each proxy card that you receive.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, we will send you written instructions that will tell you how to exchange your certificates for $2.10 per share in cash, less any applicable withholding taxes. **Please do not send in your certificates now or with your proxies.** Hold your certificates until you receive further instructions.

Q: What happens if I sell my shares before the special meeting?

A: The record date for the meeting is earlier than the expected completion date of the merger. If you held your shares on the record date, but have transferred those shares after the record date and before the meeting, you will retain your right to vote at the meeting, but not the right to receive the merger consideration. The right to receive the merger consideration will pass to the person to whom you transferred your shares.

Q: Whom should I contact if I have questions about the merger proposal or the charter proposal or need additional copies of the proxy statement?

A: If you have more questions about the merger proposal or the charter proposal or would like additional copies of this proxy statement, you should contact Daniel J. Kelly, Executive Vice President and Chief Financial Officer, Konover Property Trust, Inc., 3434 Kildaire Farm Road, Raleigh, North Carolina 27606, Telephone (919) 372-3000.

Table of Contents

Summary

This summary highlights selected information in this proxy statement and may not contain all of the information that is important to you. To more fully understand the proposals to be voted on at the special meeting, and for a more complete description of the legal terms of the merger, you should read carefully this entire proxy statement and the documents to which it refers. Copies of the merger agreement and amendment no. 1 to the merger agreement are attached as Appendices A1 and A2 to this proxy statement. Copies of the alternate forms of charter containing the proposed charter amendments are attached at Exhibits B-1 and B-2 to Appendix A2 to this proxy statement. We refer to the merger agreement and amendment no. 1 to the merger agreement collectively as the merger agreement in this proxy statement.

Parties Involved in the Merger

Konover Property Trust, Inc.

We are principally engaged in the acquisition, development, ownership and operation of retail shopping centers in the Southeastern United States. Our revenues are primarily derived under real estate leases with national, regional and local retailing companies. Our address and phone number, and the address and phone number of our executive officers and directors (except for Messrs. Ross, Ticotin and Zobler), are:

3434 Kildaire Farm Road
Suite 200
Raleigh, North Carolina 27606
(919) 372-3000

The address and phone number for Messrs. Ross, Ticotin and Zobler are:

c/o Lazard Frères Real Estate Investors L.L.C.
Attn: General Counsel
30 Rockefeller Plaza
New York, New York 10020
(212) 632-6000

KPT Properties, L.P.

KPT Properties, L.P., which is referred to in this proxy statement as the Operating Partnership, is a Delaware limited partnership through which we conduct substantially all of our operations. Konover is the sole general partner of the Operating Partnership. Konover owns a 97% interest in the Operating Partnership as of the record date. The Operating Partnership s address and phone number is:

3434 Kildaire Farm Road
Suite 200
Raleigh, North Carolina 27606
(919) 372-3000

Additional information about the Operating Partnership and its general partner is set forth in The Parties Involved in the Merger.

KPT Acquisition, L.P.

KPT Acquisition, L.P. is a Delaware limited partnership that was formed by Konover for the sole purpose of completing the OP Merger. It was formed in October 2002 and has not carried on any activities to date other than activities incident to its formation. Konover is the sole general partner of KPT Acquisition, L.P. In the OP Merger, KPT Acquisition, L.P. will merge into the Operating Partnership, with the Operating Partnership being the surviving entity. KPT Acquisition, L.P. s address and phone number is:

3434 Kildaire Farm Road
Suite 200
Raleigh, North Carolina 27606
(919) 372-3000

Additional information about KPT Acquisition, L.P. and its general partner is set forth in The Parties Involved in the Merger.

PSCO Acquisition Corp.

PSCO is a Maryland corporation that was formed by Prometheus and Kimkon for the sole purpose of completing the merger with Konover as contemplated by the merger agreement. PSCO was incorporated in June 2002 and has not carried on any activities to date other than activities incident to its formation, as contemplated by the merger agreement and in connection with the filing of a Schedule 13E-3 with the Securities and Exchange Commission in connection with the merger. Immediately before the merger and as a result of contributions made by Prometheus and Kimkon to PSCO pursuant to the co-investment agreement, substantially all of PSCO s assets will consist of:

- 16,615,922 shares of Konover common stock contributed by Prometheus;
- All of Prometheus s rights and obligations under the contingent value right agreement, dated February 24, 1998, between Prometheus and Konover, also contributed by Prometheus; and
- Kimkon s contribution of $35,554,438.50 in cash.

Certain investment funds, of which Lazard Frères Real Estate Investors, L.L.C. is the general partner, have guaranteed Prometheus s contribution obligations under the co-investment agreement, and Kimco has guaranteed Kimkon s contribution obligations under the co-investment agreement. See The Merger and Related Agreements Co-Investment Agreement. Additional Information about PSCO and about PSCO s directors and executive officers is set forth in The Parties Involved in the Merger and Appendix H to this proxy statement.

PSCO s address and phone number are:

PSCO Acquisition Corp.
c/o The Corporation Trust Incorporated
300 East Lombard Street
Baltimore, Maryland 21202
410-539-2837

The Prometheus Parties

Prometheus Southeast Retail Trust,
Prometheus Southeast Retail LLC,
LFSRI II SPV REIT Corp.,
LF Strategic Realty Investors II L.P.,
LFSRI II Alternative Partnership L.P.,
LFSRI II-CADIM Alternative Partnership L.P.,
Lazard Frères Real Estate Investors L.L.C., and
Lazard Frères & Co. LLC

[Table of Contents](#)

Prometheus is a Maryland real estate investment trust that currently owns 21,052,631 shares of our common stock. Prometheus (as assignee of Prometheus Southeast Retail LLC) and Konover are parties to a contingent value right agreement, which provides that if Prometheus has not doubled its investment (through stock appreciation, dividends, or both) in Konover by January 1, 2004, then we will pay Prometheus, in cash or stock, an amount necessary to achieve such a return (subject to a maximum payment of 4,500,000 shares of our common stock or the cash value thereof). Prometheus Southeast Retail LLC (**PSLLC**) is a Delaware limited liability company that owns 100% of the common stock of Prometheus. Additional information about Prometheus and PSLLC and about Prometheus s directors and executive officers is set forth in The Parties Involved in the Merger and Appendix F to this proxy statement.

LFSRI II SPV REIT Corp. (**SPV**), a Delaware corporation, is a holding company and is the sole member of PSLLC. Additional information about SPV and about SPV s directors and executive officers is set forth in The Parties Involved in the Merger and Appendix F to this proxy statement.

LF Strategic Realty Investors II L.P. (**LFSRI II**), LFSRI II Alternative Partnership L.P. (**LFSRI II-Alternative**) and LFSRI II-CADIM Alternative Partnership L.P. (**LFSRI II-CADIM**) (collectively the **LFSRI II Funds**), each a Delaware limited partnership, are investment partnerships formed to invest in companies active in the real estate industry. The LFSRI II Funds together own all of the common stock of SPV. Additional information about the LFSRI II Funds is set forth in The Parties Involved in the Merger.

Lazard Frères Real Estate Investors L.L.C. (**LFREI**), a New York limited liability company, is the general partner of each of the LFSRI II Funds. LFREI s activities consist principally of acting as general partner of several real estate investment partnerships that are affiliated with Lazard Frères & Co. LLC. Additional information about LFREI and about the executive officers of LFREI and the members of the LFREI investment committee is set forth in The Parties Involved in the Merger and in Appendix F to this proxy statement.

Lazard Frères & Co. LLC (**LFC**) is a New York limited liability company and the managing member of LFREI. LFC s activities consist principally of financial advisory services. Additional information about LFC and about the members of the LFC management committee is set forth in The Parties Involved in the Merger and in Appendix F to this proxy statement.

We refer to Prometheus, PSLLC, SPV, the LFSRI II Funds, LFREI, and LFC collectively as the Prometheus Parties in this proxy statement.

The address and phone number of Prometheus, PSLLC, SPV, the LFSRI II Funds, and LFREI are:

c/o Lazard Frères Real Estate Investors L.L.C.
Attn: General Counsel
30 Rockefeller Plaza
New York, New York 10020
(212) 632-6000

The address and phone number of LFC are:

Lazard Frères & Co. LLC
Attn: General Counsel
30 Rockefeller Plaza
New York, New York 10020
(212) 632-6000

Table of Contents

Merger Description

The Merger Structure.

The merger agreement provides that PSCO will be merged with Konover, with Konover surviving the merger. If the stockholders approve the proposals, the merger will become effective when the articles of merger have been filed with and accepted for record by the State Department of Assessments and Taxation of the State of Maryland in accordance with the Maryland General Corporation Law. At that time, PSCO will be merged with Konover, and PSCO will cease to exist as a separate entity. Konover, as the surviving corporation in the merger, will have as its stockholders: (1) Prometheus, (2) Kimkon, and (3) holders of PSCO s redeemable preferred stock, who will receive in the merger shares of a newly created Series B redeemable preferred stock in connection with preserving Konover s REIT status after the merger. We expect the merger to become effective as soon as practicable after our stockholders approve the merger proposal and charter proposal and all of the other conditions to the merger are waived or satisfied. See The Merger and Related Agreements The Merger Structure.

What You Will Receive in the Merger.

At the effective time of the merger, each issued and outstanding share of Konover common stock (other than the 16,615,922 shares held by PSCO) will be converted into the right to receive $2.10 in cash, reduced by any applicable withholding taxes. Immediately before the merger, PSCO will become the owner of 16,615,922 of the 21,052,631 shares of our common stock currently owned by Prometheus, which 16,615,922 shares will be canceled without payment of any consideration. See The Merger and Related Agreements Conversion of Stock and Options. At the effective time of the merger, options with an exercise price of less than $2.10 per share will be converted into the right to receive a cash payment equal to the amount by which the per share exercise price is less than $2.10, multiplied by the number of shares of common stock subject to such options.

You should not send in your Konover common stock certificates until you receive a letter of transmittal after the merger is completed.

Dividends.

We ceased paying regular quarterly dividends in the second quarter of 2001 in order to conserve cash until we determined what our strategic focus would be. The merger agreement does not permit us to pay any dividends before the merger is completed unless we need to do so in order to preserve our REIT status. However, we do not expect that will be necessary. Since you will not own any stock of the surviving corporation, you will not receive any dividends for any period following the merger.

Recommendation of the Special Committee.

Our board of directors formed a special committee consisting of directors who were not officers or employees of Konover or any of its affiliates. The special committee retained its own independent legal and financial advisors. The special committee unanimously approved the merger, merger agreement, and charter amendments and recommended that our board of directors approve the same. The special committee believes the merger, merger agreement, and charter amendments are advisable and in the best interests of Konover and are fair to Konover and our unaffiliated stockholders. See Special Factors Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors.

Recommendation of Our Board of Directors.

Our board of directors determined that the merger, merger agreement, and charter amendments are advisable and in the best interests of Konover and are fair to Konover and our unaffiliated stockholders and accordingly unanimously approved the merger, merger agreement, and charter amendments. Our board of directors, therefore,

recommends that you vote **For** the merger proposal and the charter proposal. See Special Factors Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors.

Background and Reasons for the Merger.

In making the determination to approve and recommend the merger proposal and the charter proposal, the special committee and our board of directors considered various factors and alternatives to the merger, including those described under the headings Special Factors Background of the Merger, and Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors.

Opinion of the Special Committee s Financial Advisor.

In connection with the merger, Credit Suisse First Boston, the special committee s financial advisor, delivered a written opinion to the special committee as to the fairness, from a financial point of view, of the consideration to be received in the merger by Konover s common stockholders (other than PSCO and its affiliates). The full text of Credit Suisse First Boston s written opinion, dated June 23, 2002, is attached to this proxy statement as Appendix E. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken.

Credit Suisse First Boston s opinion is addressed to the special committee and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the merger. See Special Factors Opinion of the Special Committee s Financial Advisor.

Interests of Certain Persons in the Merger.

Some of our directors and officers have interests in the merger that are different from, or in addition to, your interests as a stockholder. These interests may relate to or arise from, among other things, options and severance payments. Three of our directors are also affiliated with the Prometheus Parties. See Special Factors Interests of Directors and Officers in the Merger for a more detailed description of these interests.

As of the record date, our executive officers and directors owned options to acquire 244,655 shares of our common stock; these options are either vested or will become vested immediately before the merger. Although the shares that may be acquired by exercising the options cannot be voted at the meeting, if the merger is completed these executive officers and directors will receive cash payments for those options having an exercise price of less than $2.10 per share. Additionally, some executive officers, directors, and their affiliates own shares of our common stock or OP Units. Ownership of these securities will entitle these persons to an aggregate payment of approximately $260,000 in the merger or OP Merger. Further, certain executive officers have entered into severance arrangements with us entitling them to receive, in the aggregate, $868,000.

As of the record date, our directors, executive officers, and their affiliates, all of whom intend to vote **For** approval of the merger proposal and the charter proposal, beneficially owned an aggregate of 21,061,729 shares of our common stock (not including shares underlying unexercised options), representing approximately 66% of our common stock outstanding on the record date. This includes 21,052,631 shares of our common stock that Prometheus owns. Prometheus has entered into a voting agreement requiring it to vote **For** approval of the merger proposal and the charter proposal. See The Merger and Related Agreements Voting Agreement.

Appraisal Rights.

There are no dissenters or appraisal rights offered in the merger agreement or otherwise in connection with the merger. Under Maryland law, since our common stock is listed on the New York Stock Exchange, our common stockholders do not have the right to receive the appraised value of their shares in connection with the merger.

Table of Contents

Charter Amendments.

If the merger is consummated, Konover will be the surviving corporation. A condition to the merger is the approval of certain amendments to our charter. Most of the proposed charter amendments require the approval of a majority of the outstanding common stock entitled to vote. In addition to these amendments, we are also proposing several additional amendments to our charter principally relating to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock, which require the approval of two-thirds of the outstanding common stock entitled to vote. Approval of these additional amendments is not a condition to the merger. You are being asked to vote on the charter amendments because Maryland law requires charter amendments to be approved by common stockholders. However, the charter amendments will not affect your rights as stockholders because if the merger is consummated, you will receive cash for your shares and will no longer hold an interest in us. If the merger is not consummated, the charter will not be amended. See Proposal Regarding Charter Amendments for a description of the charter amendments.

Special Meeting and Voting.

The Special Meeting.

The special meeting of the stockholders will be held at the Omni Berkshire Place, 21 East 52nd Street at Madison Avenue, New York, New York, on Friday, November 22, 2002, at 9:00 a.m., local time. At the meeting, you will be asked to consider and vote upon the proposals, which include approving the merger agreement, the merger and the charter amendments contemplated by the merger agreement. See The Special Meeting.

Record Date and Voting Power.

Our board of directors has fixed the close of business on September 23, 2002 as the record date for determining stockholders entitled to notice of, and to vote at, the meeting. On the record date, approximately 344 stockholders of record held the 31,915,014 shares of our common stock which were outstanding. Common stockholders of record on the record date will be entitled to one vote per share of common stock on any matter that may properly come before the meeting and any adjournment or postponement of the meeting. No other class of stock is entitled to vote at the meeting. See The Special Meeting Record Date and Voting Power.

Quorum and Vote Required.

Our charter and bylaws require (1) the presence, in person or by proxy, of holders of shares representing at least a majority of the votes entitled to be cast at the meeting in order to constitute a quorum, and (2) the affirmative vote of holders of shares representing at least a majority of the votes entitled to be cast at the meeting in order to approve the merger proposal and the charter proposal, except for certain charter amendments included in the charter proposal principally relating to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock, which require the affirmative vote of two-thirds of the votes entitled to be cast. Approval of the charter amendments requiring a majority vote is a condition to completing the merger, but approval of the charter amendments requiring a two-thirds vote is not a condition to completing the merger. Failure to return your proxy or direct your broker or nominee how to vote your proxy, as well as abstentions, will have the same effect as a vote against the proposals. See The Special Meeting Quorum and Vote Required.

Proxies, Voting and Revocation.

Shares represented at the meeting by properly executed proxies received prior to or at the meeting and not revoked will be voted at the meeting, and at any adjournments or postponements of the meeting, in accordance with the instructions on the proxies. If you execute a proxy and submit it without instructions, except for broker non-votes, the shares represented by your proxy will be voted **For** approval of the merger proposal and the charter proposal. Proxies are being solicited on behalf of our board of directors.

Table of Contents

You may revoke your proxy at or before the meeting by:

(1) delivering to our secretary a written notice, bearing a later date than the previously delivered proxy, revoking the proxy;

(2) executing, dating and delivering to our secretary a subsequently dated proxy; or

(3) attending the meeting and voting in person. Attendance at the meeting will not, by itself, constitute revocation of a proxy. See The Special Meeting Proxies, Voting and Revocation.

We will bear our own cost of soliciting proxies. We will reimburse brokerage houses, fiduciaries, nominees and others for their out-of-pocket expenses in forwarding proxy materials to beneficial owners of our common stock held in their names. We have not retained the services of any third parties to assist us in the solicitation of proxies. We estimate that the costs to solicit proxies, including printing and postage, will be approximately $60,000.

Broker Votes.

Shares may be held in the name of your broker or a nominee or in street name. Your broker or nominee will not vote your shares unless you provide to them instructions on how to vote. Your broker or nominee will provide you directions regarding how to instruct your broker or nominee to vote your shares. Without your instructions, your shares will not be voted, which will have the same effect as a vote against the merger proposal and the charter proposal.

Selected Merger Agreement Provisions

The merger agreement and amendment no. 1 to it are described on pages 92 through 105 and are attached to this proxy statement as Appendices A1 and A2. The merger agreement, as amended, is the legal document that governs the merger, and we encourage you to read it carefully.

OP Transfer.

As of the date of this proxy statement, substantially all of our OP Units are held by KPT Properties Holding Corp., which is one of our direct, wholly owned subsidiaries. Konover is the sole general partner of the Operating Partnership. As required by the merger agreement, before the merger of Konover and PSCO, we will cause KPT Properties Holding Corp. to transfer to Konover all of the OP Units it holds, except for 0.1% of the total common OP Units. We refer to this transfer as the OP Transfer throughout this proxy statement.

OP Merger.

Subsequent to the OP Transfer and prior to the merger of PSCO and Konover, we will cause KPT Acquisition, L.P., a newly formed, wholly owned Delaware limited partnership, to be merged with and into the Operating Partnership, with the Operating Partnership being the surviving entity. We refer to this merger as the OP Merger throughout this proxy statement. The OP Merger will occur on the same date as the merger of PSCO and Konover. In the OP Merger, each OP Unit, other than those owned directly or indirectly by Konover, will be converted automatically into the right to receive $2.10, the same as the consideration per common share payable in the merger.

OP Distribution.

Immediately after the OP Merger but immediately before the consummation of the merger of PSCO and Konover, we will cause the Operating Partnership to distribute to Konover $12,000,000.00 in cash. We refer to

this distribution as the OP Distribution throughout this proxy statement. The Operating Partnership will make the OP Distribution out of its funds remaining after payment of the consideration to its minority limited partners (which excludes Konover) in the OP Merger.

Conditions to the Merger.

Each of Konover s and PSCO s obligation to complete the merger depends on the satisfaction or waiver of a number of conditions, including the following:

a majority of our common stockholders approving the merger proposal and the charter proposal (approval of those additional charter amendments requiring a two-thirds vote is not a condition to the merger);

the representations and warranties of the other party in the merger agreement being true and correct on the closing date (without giving effect to knowledge, materiality, or material adverse effect qualifiers), subject generally to any inaccuracies, in the aggregate, not having a material adverse effect on the party making the representations and warranties;

the material performance of the material obligations to be performed by the other party under the merger agreement;

the absence of governmental actions having the effect of making the merger illegal or otherwise prohibiting the merger; and

Prometheus completing its contribution to PSCO of Konover common stock and its rights under the contingent value right agreement and Kimkon completing its cash contribution to PSCO. If either Prometheus or Kimkon fail to make their respective required contributions, Konover has the right, under the co-investment agreement, to seek enforcement of those contributions and the guarantees relating to the contributions.

PSCO s obligation to complete the merger also depends on the satisfaction or waiver of a number of additional conditions, including the following:

Konover s subsidiary, KPT Properties Holding Corp., must have completed the OP Transfer;

The OP Merger must be completed, which will have the effect of causing the Operating Partnership to be directly and indirectly wholly owned by Konover;

Following the OP Merger, but before the merger of PSCO and Konover, the OP Distribution must be completed; and

Konover must deliver to PSCO a letter of resignation from each of William D. Eberle, Carol R. Goldberg, Simon Konover, J. Michael Maloney, L. Glenn Orr, Jr. and Philip A. Schonberger, who are the members of our board of directors that were not nominated by Prometheus, with each such resignation to be effective as of the closing of the merger.

For a more detailed description of the conditions to the merger, see The Merger and Related Agreements Conditions to the Merger.

Termination of the Merger Agreement.

Konover and PSCO may, by mutual written consent, agree to terminate the merger agreement without completing the merger. The merger agreement may also be terminated by either Konover or PSCO:

if there has been a breach of the merger agreement that causes the representations and warranties of the other party not to be true and correct and has a material adverse effect on the party making the

representations and warranties or causes the failure of a party to materially perform its material obligations;

- if any final, nonappealable order of any governmental entity or court is in effect that prevents completion of the merger;
- if our stockholders do not approve the merger proposal and charter proposal at the meeting; or
- if the merger is not completed on or before March 31, 2003.

We also have the right to terminate the merger agreement before our stockholders approve the merger proposal and charter proposal at the meeting if the special committee and our board of directors (acting without the participation of Messrs. Ross, Ticotin, and Zobler, or any of their successors) approves or recommends an alternative acquisition proposal that our board of directors concludes is a superior proposal (as defined in the merger agreement). But before we can terminate the merger agreement, we must give PSCO five business days to revise its proposal to make a counterproposal that is at least as favorable as the alternative acquisition proposal. If our board of directors concludes that the alternative acquisition proposal remains superior to PSCO s counterproposal and elects to terminate the merger agreement, we must pay PSCO a termination fee and reimburse PSCO for certain out-of-pocket costs and expenses.

Finally, PSCO also may terminate the merger agreement:

- if our board of directors withdraws or modifies in any adverse manner its approval or recommendation of the merger or approves any alternative acquisition proposal;
- if a third party commences a tender offer and our board of directors or the special committee does not recommend against accepting the offer to our stockholders (including by taking no position or a neutral position); or
- if we violate our obligation not to solicit alternative acquisition proposals.

For a more detailed description relating to termination of the merger agreement, see The Merger and Related Agreements Termination of the Merger Agreement.

Termination Fee and Expense Reimbursement Under the Merger Agreement.

If the merger agreement is terminated in any of the circumstances discussed below, we must pay PSCO a $3.0 million termination fee plus all of PSCO s and its stockholders and their affiliates out-of-pocket costs and expenses incurred in the process of reviewing, negotiating, and buying Konover. The merger agreement caps the out-of-pocket costs and expenses we must pay at $1.0 million. We must pay the termination fee and out-of-pocket costs and expenses if the merger agreement is terminated:

- by PSCO, as a result of our board of directors withdrawing or modifying in any adverse manner its approval or recommendation of the merger agreement or approving or recommending to our stockholders an alternative acquisition proposal;
- by Konover, as a result of our board of directors determining to approve or recommend a superior proposal to the merger;
- by PSCO, as a result of our breach of our obligation not to solicit alternative acquisition proposals;
- by PSCO, because we breached the merger agreement and within 12 months of termination, we enter into an alternative acquisition transaction that results in the payment to our common stockholders of an amount per share of at least $2.10; or
- by Konover, because the merger was not completed by March 31, 2003, and by June 30, 2003, we enter into an alternative acquisition transaction that results in the payment to our common stockholders of an amount per share of at least $2.10.

For a more detailed description relating to termination of the merger agreement, see The Merger and Related Agreements Termination of the Merger Agreement.

Financing, Tax, and Accounting Matters

Financing for the Merger.

The funds to pay the merger consideration will come from a combination of Kimkon s cash contribution of approximately $35.6 million to PSCO and from cash that we have on hand, a portion of which will be distributed by our Operating Partnership to Konover immediately before the closing of the merger. There are no financing contingencies to the completion of the merger. Under the terms of the co-investment agreement, to which Konover is an express third-party beneficiary, Kimkon is obligated to make the cash contribution to PSCO after all of the other conditions precedent in the merger agreement to PSCO s obligation to complete the merger are satisfied or waived. Kimkon s cash contribution will be funded from Kimco s cash on hand or credit facilities. Kimco has guaranteed Kimkon s obligation to contribute cash to PSCO.

Material Federal Income Tax Considerations.

In general, you will recognize a gain or loss for U.S. federal income tax purposes equal to the difference between the cash received in payment for your stock of Konover and your adjusted tax basis in your stock of Konover. This transaction may also be taxable for state, local or foreign tax purposes. See Special Factors Material Federal Income Tax Considerations.

Because individual circumstances may differ, each stockholder is urged to consult his or her own tax advisor to determine the particular tax effects of the merger, including the application and effect of state, local and other tax laws.

Accounting Treatment.

The merger will be treated as a recapitalization transaction in accordance with generally accepted accounting principles. See Special Factors Expected Accounting Treatment of the Merger.

Further Information

Additional Information.

This proxy statement contains important information regarding the merger proposal and the charter proposal. It also contains important information about the factors we, the special committee of our board of directors, and our board of directors considered in evaluating the merger proposal and the charter proposal. We urge you to read this document carefully, including the appendices, before voting your shares.

Stockholder Questions.

If you have more questions about the merger proposal or the charter proposal, you may contact:

Daniel J. Kelly
Executive Vice President and Chief Financial Officer
Konover Property Trust, Inc.
3434 Kildaire Farm Road
Suite 200
Raleigh, North Carolina 27606
(919) 372-3000

Table of Contents

Selected Financial and Other Information
(in thousands, except for share and property data)

The following table sets forth summary historical consolidated financial and operating information for Konover. The summary historical consolidated financial information for the six months ended June 30, 2002 and for the years ended December 31, 2001, 2000, 1999, 1998 and 1997 is derived from the unaudited consolidated financial statements for Konover for the six months ended June 30, 2002 and the audited consolidated financial statements of Konover for the years ended December 31, 2001, 2000, 1999, 1998 and 1997. The information set forth below should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto incorporated into this proxy statement by reference from our Annual Report on Form 10-K for the year ended December 31, 2001, which is included as Appendix J to this proxy statement.

	For the Six Months Ended June 30, 2002	For the Years Ended December 31,				
		2001	2000	1999	1998	1997
Operating Data:						
Rental revenues	$ 19,883	$ 75,113	$ 88,920	$ 82,449	$ 70,666	$ 54,940
Property operating costs	6,506	25,025	29,215	27,057	21,749	16,885
	13,377	50,088	59,705	55,392	48,917	38,055
Depreciation and amortization	5,377	18,505	25,614	23,562	19,034	15,858
General and administrative	4,539	7,950	6,669	6,317	5,066	4,404
Stock compensation amortization	86	845	2,865	1,979	1,419	537
Severance and other related costs		6,099				
Interest, net	8,578	28,131	27,806	16,801	19,772	16,436
(Gain) loss on sale of real estate	(213)	(367)	1,946	3,810	512	
Abandoned transaction costs	31	83	1,257	3,883		1,250
E-commerce start-up costs				2,847		
Equity in (earnings) losses of unconsolidated entities	(335)	6,782	10,416	915		
Operating loss of sold management business	84					
Minority interest	(157)	(3,645)	(1,157)	(78)	86	
Adjustment to carrying value of property and investments	(300)	114,755	19,338	2,400		
Extraordinary (gain) loss on early retirement of debt		(775)				986
Net (loss) income	$ (4,313)	$ (128,275)	$ (35,049)	$ (7,044)	$ 3,028	$ (1,416)
(Loss) income before extraordinary item	$ (4,313)	$ (129,050)	$ (35,049)	$ (7,044)	$ 3,028	$ (430)
Preferred stock dividends	(93)	(271)	(1,084)	(1,089)		
(Loss) income before extraordinary item applicable to common stockholders	(4,406)	(129,321)	(36,133)	(8,133)	3,028	(430)
Extraordinary gain (loss) on early retirement of debt		775				(986)
(Loss) income applicable to common stockholders	$ (4,406)	$ (128,546)	$ (36,133)	$ (8,133)	$ 3,028	$ (1,416)
Basic (loss) income per common share:						
(Loss) income before extraordinary item applicable to common stockholders	$ (0.14)	$ (4.13)	$ (1.17)	$ (0.26)	$ 0.16	$ (0.04)
Extraordinary item		0.02				(0.08)
Net (loss) income applicable to common stockholders	$ (0.14)	$ (4.11)	$ (1.17)	$ (0.26)	$ 0.16	$ (0.12)
Weighted average common shares outstanding	31,828	31,292	30,954	30,847	18,693	11,824
Diluted (loss) income per common share:						
(Loss) income before extraordinary item applicable to common stockholders	$ (0.14)	$ (4.13)	$ (1.17)	$ (0.26)	$ 0.14	$ (0.04)

Extraordinary item		0.02				(0.08)
Net (loss) income applicable to common stockholders	$ (0.14)	$ (4.11)	$ (1.17)	$ (0.26)	$ 0.14	$ (0.12)
Weighted average common shares outstanding diluted (a)	31,828	31,292	30,954	30,847	21,878	11,824

22

Table of Contents

	For the Six Months Ended June 30, 2002	For the Years Ended December 31,				
		2001	2000	1999	1998	1997
Other Data:						
EBITDA:						
Net (loss) income	$ (4,313)	$ (128,275)	$ (35,049)	$ (7,044)	$ 3,028	$ (1,416)
Adjustments:						
Interest, net	8,578	28,131	27,806	16,801	19,772	16,436
Depreciation and amortization	5,377	18,505	25,614	23,562	19,034	15,858
Stock compensation amortization	86	845	2,865	1,979	1,419	537
(Gain) loss on sale of assets	(213)	(367)	1,946	3,810	512	
Minority interest	(157)	(3,645)	(1,157)	(78)	86	
Equity in (earnings) losses of unconsolidated ventures	(335)	6,782	10,416	915		
Abandoned transaction costs	31	83	1,257	3,883		1,250
E-commerce start-up costs				2,847		
Adjustment to carrying value of property and investments	(300)	114,755	19,338	2,400		
Extraordinary (gain) loss on early retirement of debt		(775)				986
	$ 8,754	$ 36,039	$ 53,036	$ 49,075	$ 43,851	$ 33,651
Funds from Operations:						
Net (loss) income before extraordinary items	$ (4,313)	$ (129,050)	$ (35,049)	$ (7,044)	$ 3,028	$ (430)
Adjustments:						
Real estate depreciation and amortization	4,863	17,224	24,147	21,854	18,333	15,504
(Gain) loss on sale of assets	(213)	(367)	1,946	3,810	512	
Minority interest in Operating Partnership	(157)	(3,645)	(953)	(281)	86	
E-commerce start-up costs				2,847		
Technology venture operations			5,525			
Share of depreciation in unconsolidated ventures	212	298	2,654	229		
Adjustment to carrying value of property	(300)	112,399	19,338	2,400		
	$ 92	$ (3,141)	$ 17,608	$ 23,815	$ 21,959	$ 15,074
Weighted average shares outstanding-diluted (a)	35,245	34,810	34,621	34,472	21,878	14,158
Funds Available for Distribution/Reinvestment:						
Funds from Operations	$ 92	$ (3,141)	$ 17,608	$ 23,815	$ 21,959	$ 15,074
Adjustments:						
Stock compensation amortization	86	845	2,865	1,979	1,419	537
Capitalized tenant allowances	(712)	(917)	(1,685)	(2,652)	(4,259)	(1,418)
Capitalized leasing costs	(264)	(1,878)	(2,035)	(1,656)	(2,258)	(1,054)
Recurring capital expenditures	(406)	(774)	(1,341)	(1,103)	(599)	(845)
	$ (1,204)	$ (5,865)	$ 15,412	$ 20,383	$ 16,262	$ 12,294
Dividends declared on annual earnings	$	$ 4,307	$ 18,556	$ 18,107	$	$
Dividends declared on annual earnings per share	$	$ 0.125	$ 0.50	$ 0.50	$	$
Cash Flows:						
Cash flows from operating activities	$ 85	$ 554	$ 19,094	$ 33,027	$ 18,540	$ 12,283
Cash flows provided by (used in) investing activities	10,016	184,152	(33,108)	(129,237)	(72,115)	(62,251)
Cash flows (used in) from financing activities	(3,479)	(177,751)	19,308	31,317	121,749	47,061
Net increase (decrease) increase in cash and cash equivalents	$ 6,622	$ 6,955	$ 5,294	$ (64,893)	$ 68,174	$ (2,907)

23

Table of Contents

	At June 30, 2002	At December 31, 2001	2000	1999	1998	1997
Balance Sheet Data:						
Income-producing properties, including net realizable value of properties held for sale (before depreciation and amortization)	$ 315,528	$ 359,780	$ 710,068	$ 671,544	$ 575,471	$ 393,624
Total assets	$ 331,934	$ 385,016	$ 703,271	$ 719,457	$ 682,449	$ 403,626
Debt on income properties	$ 180,849	$ 229,709	$ 399,812	$ 362,041	$ 304,783	$ 232,575
Total liabilities	$ 190,219	$ 240,637	$ 426,700	$ 385,400	$ 320,862	$ 240,699
Minority interests	$ 4,870	$ 3,680	$ 8,356	$ 12,999	$ 12,246	$
Total stockholders equity	$ 136,845	$ 140,699	$ 268,215	$ 321,058	$ 349,341	$ 162,927
Portfolio Property Data:						
Total GLA (at end of period) (b)	4,210	4,659	9,400	9,519	8,148	5,503
Weighted average GLA (b)	4,526	8,145	9,477	8,978	7,390	5,341
Number of properties (at end of period) (b)	32	33	66	68	59	41
Occupancy (at end of year):						
Operating-retail	85.2%	86.1%	91.0%	93.2%	92.0%	93.4%
Operating-office	39.5%					
Held for sale-non operational property	15.7%	15.7%	32.5%	66.4%	56.4%	50.4%
Held for sale-operating property		94.8%				
Development property-retail portion		73.9%				
Development property-office portion		38.8%				

(a) The following table sets forth the computation of the denominator to be used in calculating the weighted-average shares outstanding based on Statement of Financial Accounting Standard No. 128, Earnings Per Share .

(b) Excludes certain properties under development during the periods.

Denominator:						
Denominator-weighted average shares	31,828	31,292	30,954	30,847	18,693	11,824
Effect of dilutive securities:						
Preferred stock	2,264	2,193	2,169	2,189	2,222	2,222
Employee stock options					33	69
Other dilutive securities	236	397	459	328	328	43
Operating Partnership Units	917	928	1,039	1,108	602	
Dilutive potential common shares	3,417	3,518	3,667	3,625	3,185	2,334
Denominator-adjusted weighted average shares and assumed conversions	35,245	34,810	34,621	34,472	21,878	14,158

Funds From Operations (FFO) means net income before extraordinary items (computed in accordance with accounting principles generally accepted in the United States) excluding gains or losses on sale of real estate plus depreciation and amortization.

EBITDA is defined as revenues less operating costs, including general and administrative expenses, before interest, depreciation and amortization and unusual items. As a REIT, Konover is generally not subject to Federal income taxes. Some analysts use EBITDA as an indicator of operating performance for the following reasons: (1) it is industry practice to evaluate the performance of real estate properties based on net operating income (NOI), which is generally equivalent to EBITDA; and (2) both NOI and EBITDA are unaffected by the debt and equity structure of the property owner.

FFO and EBITDA (1) do not represent cash flow from operations as defined by generally accepted accounting principles, (2) are not necessarily indicative of cash available to fund all cash flow needs and (3) should not be considered as an alternative to net income for purposes of evaluating Konover s operating performance or as an alternative to cash flow as a measure of liquidity.

Table of Contents

Comparative Market and Per Share Data

Comparative Market Data

Our common stock is currently listed on the New York Stock Exchange (the NYSE) under the symbol KPT. Our common stock began trading on the NYSE on June 29, 1994.

The table below sets forth, for the calendar quarters indicated, the reported high and low sale prices of our common stock and the dividends declared per share.

	High	Low	Cash Dividends Declared
2000			
First Quarter	$ 6.18	$ 4.75	$ 0.125
Second Quarter	6.06	4.00	0.125
Third Quarter	4.93	4.00	0.125
Fourth Quarter	4.50	3.50	0.125
2001			
First Quarter	$ 5.00	$ 3.80	$ 0.125
Second Quarter	4.25	2.68	
Third Quarter	3.08	1.35	
Fourth Quarter	1.88	1.15	
2002			
First Quarter	$ 1.90	$ 1.46	$
Second Quarter	2.06	1.61	
Third Quarter	2.09	1.96	
Fourth Quarter (through October 18, 2002)	2.09	1.98	

On June 21, 2002, the last full trading day on the NYSE prior to the public announcement of the execution of the merger agreement on June 23, 2002, our common stock closed at $1.86 per share. On October 18, 2002, the most recent practicable date prior to the printing of this proxy statement, the closing price was $2.06.

Following the consummation of the merger, our common stock will cease to be publicly traded.

Unaudited Comparative Per Share Data

We present below the earnings per share, cash dividends declared, and book value per common share data of Konover on a historical and unaudited pro forma basis. We have derived the unaudited pro forma per share information from the unaudited pro forma information presented elsewhere in this document. You should read the information below in conjunction with the financial statements and accompanying notes that are incorporated by reference into this proxy statement from our Annual Report on Form 10-K for the year ended December 31, 2001, and the unaudited pro forma data included in this proxy statement.

	As of and for the Six Months Ended June 30, 2002	As of and for the Year Ended December 31, 2001
Historical:		
Earnings per share basic	$ (0.14)	$ (4.11)
Earnings per share diluted	$ (0.14)	$ (4.11)
Cash dividends declared	$	$ 0.125
Book value per common share	$ 3.94	
Pro Forma:		
Earnings per share basic	$ (0.14)	$ (0.87)
Earnings per share diluted	$ (0.14)	$ (0.87)
Cash dividends declared	$	$ 0.125
Book value per common share	$ 3.58	

25

Table of Contents

Konover Property Trust, Inc.

Pro forma Consolidated Balance Sheet
As of June 30, 2002
(Amounts in thousands)
(Unaudited)

	Konover Property Trust, Inc.(a)	Redemption of Series A Convertible Preferred Stock(b)	Merger(c)	Pro Forma Konover Property Trust, Inc.
Assets				
Investment in rental property, excluding properties held for sale, net	$ 267,573	$	$	$ 267,573
Properties held for sale	10,028			10,028
Cash and cash equivalents	24,237	(9,500)	(1,390)(d)	13,347
Restricted cash	6,214			6,214
Accounts receivable, net	3,214			3,214
Deferred charges and other assets	4,589			4,589
Notes receivable	2,627			2,627
Investment in and advances to unconsolidated entities	13,452			13,452
Total assets	**$ 331,934**	**$ (9,500)**	**$ (1,390)**	**$ 321,044**
Liabilities and Stockholders Equity				
Debt on income properties	$ 180,849	$	$	$ 180,849
Capital lease obligation	58			58
Accounts payable and other liabilities	9,312		(2,233)(e)	7,079
Total liabilities	190,219		(2,233)	187,986
Minority interests	4,870		(3,458)(f)	1,412
Stockholders equity:				
Series A convertible preferred stock	18,679	(18,679)		
Series B redeemable preferred stock			75(h)	75
Stock purchase warrants	9	(8)		1
Common stock	319		61(g)	380
Additional paid-in capital	290,944	9,187	5,832(g)	305,963
Accumulated deficit	(173,069)		(1,704)(i)	(174,773)
Deferred compensation	(37)		37(e)	
Total stockholders equity	136,845	(9,500)	4,301	131,646
Total liabilities and stockholders equity	**$ 331,934**	**$ (9,500)**	**$ (1,390)**	**$ 321,044**

The accompanying notes and management s assumptions are an integral part of this statement.

Konover Property Trust, Inc.

Pro forma Consolidated Statement of Operations
For the Six Months Ended June 30, 2002
(Amounts in thousands, except per share information)
(Unaudited)

	Konover Property Trust, Inc.(k)	Mount Pleasant Towne Centre Sale(l)	Merger(c)	Pro Forma Konover Property Trust, Inc.
Revenues				
Base rents	$ 15,343	$ (1,938)	$	$ 13,405
Percentage rents	227	(15)		212
Property operating cost recoveries	3,830	(551)		3,279
Other income	483	(14)		469
Total revenues	**19,883**	**(2,518)**		**17,365**
Expenses				
Property operating	4,487	(489)		3,998
Real estate taxes	2,019	(253)		1,766
Depreciation and amortization	5,377			5,377
General and administrative	4,539		(i)(j)	4,539
Stock compensation amortization	86		(86)(e)	
Operating loss of sold management business	84			84
Interest, net	8,578	(1,315)	82(m)	7,345
Gain on sale of real estate	(213)	192		(21)
Adjustment to carrying value of property and investments	(300)			(300)
Abandoned transaction costs	31			31
Equity in earnings of unconsolidated earnings	(335)			(335)
Total expenses	**24,353**	**(1,865)**	**(4)**	**22,484**
Loss before minority interests	(4,470)	(653)	4	(5,119)
Minority interest	157		(122)(f)	35
Net loss	(4,313)	(653)	(118)	(5,084)
Preferred dividends	(93)			(93)
Loss applicable to common stockholders	$ (4,406)	$ (653)	$ (118)	$ (5,177)
Earnings per common share:				
Basic	$ (0.14)			$ (0.14)
Diluted	$ (0.14)			$ (0.14)
Weighted average common shares outstanding:				
Basic	31,828			38,048
Diluted	31,828			38,048

The accompanying notes and management s assumptions are an integral part of this statement.

27

Table of Contents

Konover Property Trust, Inc.

Pro forma Consolidated Statement of Operations
For the Year Ended December 31, 2001
(Amounts in thousands, except per share information)
(Unaudited)

	Konover Property Trust, Inc.(k)	Mount Pleasant Towne Centre Sale(l)	2001 Property Disposals(n)	Merger(c)	Pro forma Konover Property Trust, Inc.
Revenues					
Base rents	$ 58,265	$ (5,328)	$ (26,243)	$	$ 26,694
Percentage rents	834	(53)	(378)		403
Property operating cost recoveries	13,575	(1,110)	(5,857)		6,608
Other income	2,439	(16)	(1,620)		803
Total revenues	**75,113**	**(6,507)**	**(34,098)**		**34,508**
Expenses					
Property operating	17,243	(1,078)	(9,240)		6,925
Real estate taxes	7,782	(690)	(3,627)		3,465
Depreciation and amortization	18,505	(1,449)	(5,851)		11,205
General and administrative	7,950			(i)(j)	7,950
Stock compensation amortization	845			(845)(e)	
Severance and other related costs	6,099				6,099
Interest, net	28,131	(3,623)	(9,882)	218(m)	14,844
Gain on sale of real estate	(367)		367		
Adjustment to carrying value of property and investments	114,755	(6,123)	(100,575)		8,057
Abandoned transaction costs	83		(22)		61
Equity in losses of unconsolidated ventures	6,782				6,782
Minority interest	(3,645)			3,645(f)	
Total expenses	**204,163**	**(12,963)**	**(128,830)**	**3,018**	**65,388**
Loss before extraordinary item	(129,050)	6,456	94,732	(3,018)	(30,880)
Extraordinary gain on early retirement of debt	775		(775)		
Net loss	(128,275)	6,456	93,957	(3,018)	(30,880)
Preferred dividends	(271)				(271)
Loss applicable to common stockholders	$ (128,546)	$ 6,456	$ 93,957	$ (3,018)	$ (31,151)
Earnings per common share:					
Basic	$ (4.11)				$ (0.82)
Diluted	$ (4.11)				$ (0.82)
Weighted average common shares outstanding:					
Basic	31,292				38,048
Diluted	31,292				38,048

The accompanying notes and management s assumptions are an integral part of this statement.

Table of Contents

Konover Property Trust, Inc.

Notes to Pro forma Consolidated Financial Data
(Unaudited)

Basis of Presentation:

On June 24, 2002, we announced that our board of directors approved a definitive merger agreement, subject to stockholder approval, with PSCO, a newly formed Maryland corporation owned by Prometheus and Kimkon, a subsidiary of Kimco, to take Konover private. Prometheus currently owns approximately 66% of our common stock. Under the terms of the merger agreement: (1) the holders of our common stock (excluding PSCO, to which Prometheus will transfer 16,615,922 of its currently held shares of common stock immediately before the merger of Konover and PSCO) will receive $2.10 of cash per share in exchange for their shares of common stock; (2) all rights to shares of common stock under our stock compensation plans will become fully vested, and the holders of options to purchase shares of our common stock will receive for each share of stock subject to the option the difference (to the extent a positive amount) between $2.10 and the exercise price of each option; and (3) the holders of PSCO s redeemable preferred stock will receive redeemable preferred stock, designated Series B redeemable preferred stock, in the surviving corporation in the merger (we have assumed that PSCO will issue its redeemable preferred stock for $500 per share).

The merger agreement also provides that the holders of our existing Series A convertible preferred stock, at their individual election, will receive either a new preferred security, designated Series A convertible preferred stock, representing a continuing interest in the surviving corporation in the merger or cash of $6.395 per share of existing Series A convertible preferred stock. However, as of the date of this proxy statement, there are no shares of our Series A convertible preferred stock outstanding and, therefore, the provisions of the merger agreement regarding consideration for the Series A convertible preferred stock will be inapplicable in connection with the merger. See Events Relating to the Former Holders of Series A Convertible Preferred Stock.

As of the date of this proxy statement, Prometheus owns 500 shares of PSCO common stock which it purchased for $1,050, and Kimkon owns 500 shares of PSCO common stock which it purchased for $1,050. Immediately before the merger, Prometheus will contribute to PSCO 16,615,922 shares of its Konover common stock and its rights under the contingent value right agreement. In exchange PSCO will issue to Prometheus an additional 21,115,922 shares of PSCO common stock. In the merger, the 16,615,922 shares of Konover common stock that PSCO owns will be canceled without any payment or consideration. The 21,116,422 shares of PSCO common stock that Prometheus owns will be converted in the merger on a one-for-one basis into shares of the surviving corporation s common stock. Therefore, immediately after the merger, Prometheus will own 21,116,422 shares of the common stock of the surviving corporation.

In addition to Prometheus s contributions, immediately before the merger, Kimkon will contribute to PSCO $35,554,439 in cash. In exchange PSCO will issue to Kimkon shares of PSCO common stock at $2.10 per share (i.e., an additional 16,930,685 shares of PSCO common stock). In the merger, all shares of PSCO common stock owned by Kimkon will be converted on a one-for-one basis into shares of the surviving corporation s common stock. Therefore, immediately after the merger, Kimkon will own 16,931,185 shares of common stock of the surviving corporation.

Lastly, immediately before the merger, PSCO will issue up to 150 shares of its redeemable preferred stock to approximately 100 individuals at a subscription price of $500 per share. In the merger, the newly issued shares of PSCO redeemable preferred stock will be converted on a one-for-one basis into the surviving corporation s shares of Series B redeemable preferred stock.

The funds to pay the merger consideration and transaction costs of the merger will come from a combination of Kimkon s cash contribution to PSCO and from cash that we have on hand, a portion of which our Operating Partnership will distribute to us immediately before the closing of the merger.

Table of Contents

The unaudited pro forma consolidated balance sheet as of June 30, 2002 is based on our unaudited historical financial statements after giving effect to the merger transaction with Prometheus and Kimkon and certain adjustments as described below.

Adjustments:

(a) Represents the historical unaudited consolidated balance sheet of Konover as of June 30, 2002.

(b) On October 10, 2002, Konover entered into a settlement agreement with the Series A convertible preferred stockholders. Pursuant to the settlement agreement, in exchange for an aggregate cash payment by Konover of $9.5 million, the Series A convertible preferred stockholders surrendered for cancellation all of their shares of Series A convertible preferred stock and warrants to purchase shares of Konover common stock, and released all claims relating to the lawsuit described in Events Relating to the Former Holders of Series A Convertible Preferred Stock and all claims relating to the merger, their investment in Konover, and/or Konover or our subsidiaries.

(c) Represents the impact of the merger as described above.

(d) Adjustments to cash and cash equivalents include (in thousands):

Cash contributed by Kimkon and Prometheus	$	35,557
Cash paid to common stockholders		(32,127)
Cash paid to holders of OP Units		(1,994)
Cash paid to holders of certain employee equity instruments, less applicable exercise price		(678)
Issuance of redeemable preferred stock		75
Transaction costs, net of payments through June 30, 2002		(2,223)
	$	(1,390)

(e) Represents settlement of all employee equity instruments, including deferred compensation on restricted stock and accrued liabilities under stock purchase and repurchase rights.

(f) Represents the acquisition in the OP Merger of all OP Units not held directly or indirectly by Konover.

(g) Represents the recapitalization of Konover.

(h) Represents the sale by PSCO prior to the merger of 150 shares of redeemable preferred stock for $500 per share, which shares are then converted in the merger into shares of Series B redeemable preferred stock.

(i) The pro forma consolidated statements of operations presented herein do not reflect estimated non-recurring costs attributable to the merger transaction to be expensed in future periods which consist of:

	Six Months Ended June 30, 2002		Year Ended December 31, 2001	
Merger transaction costs, net of expenses included in historical amounts	$	1,454	$	2,489
Record vesting of unearned stock compensation		250		336
	$	1,704	$	2,825

(j) The pro forma consolidated statements of operations presented herein do not reflect planned reductions in certain general and administrative expenses arising from the merger. To date, an operating and transition plan has not been completed. In addition, legal fees related to litigation arising from the proposed merger have not been included in the pro forma consolidated statements of operations. We cannot currently estimate these legal fees.

30

(k) Represents the unaudited consolidated statement of operations of Konover for the six months ended June 30, 2002 and the audited consolidated statement of operations for the year ended December 31, 2001.

(l) Represents the elimination of the historical unaudited statements of operations for the period from January 1, 2002 to May 15, 2002 (the date the property was sold) and the year ended December 31, 2001 of Mount Pleasant Towne Centre.

(m) Represents the elimination of interest income on the $10.9 million of cash used in the Series A convertible preferred stock redemption described in note (b) above and the merger closing.

(n) Represents the elimination of the historical unaudited statements of operations for the year ended December 31, 2001 of the 33 properties sold during 2001. The properties include the 31 property outlet portfolio sale in September 2001, the sale of the Shoreside shopping center in September 2001, and the sale of the Nashville outlet shopping center in December 2001.

Table of Contents

The Special Meeting

Date, Time and Place of the Special Meeting

This proxy statement is being used in connection with the solicitation of proxies for the special meeting of our stockholders which will be held at the Omni Berkshire Place, 21 East 52nd Street at Madison Avenue, New York, New York on Friday, November 22, 2002, at 9:00 a.m., local time, and at any adjournment or postponement thereof. This proxy statement and the enclosed form of proxy are first being mailed to our stockholders on or about October 24, 2002.

Purpose of the Special Meeting

At the meeting, you will be asked to consider and vote on (1) a proposal to approve the merger and the merger agreement, and (2) a proposal to approve the charter amendments contemplated by the merger agreement, each as more completely described under the headings The Merger and Related Agreement and Proposal Regarding Charter Amendments. As a result of the merger, Konover s common stock will become owned entirely by Prometheus and Kimkon. To maintain Konover s REIT status after the merger, a new Series B redeemable preferred stock will be issued in the merger to holders of PSCO s redeemable preferred stock. If the merger is completed, each of our common stockholders (other than PSCO) will receive $2.10 per share in cash, less applicable withholding taxes, if any, for each share of our common stock held and will no longer be a stockholder of Konover following the merger. As a result of a contribution to PSCO by Prometheus immediately before the merger, PSCO will own 16,615,922 shares of our common stock that will be canceled in the merger without payment of any consideration. In the merger, Prometheus will receive the $2.10 per share merger consideration for the 4,436,709 shares of Konover common stock it will continue to own up until the merger.

Only business that is brought before the special meeting by or at the direction of our board of directors will be conducted at the meeting. Except for the merger proposal and the charter proposal, our board of directors knows of no other business to be brought before the meeting. If a motion to adjourn or postpone the meeting to another time or place is made, the persons named in the enclosed form of proxy and acting under that proxy generally will have discretion to vote on the motion to adjourn or postpone the meeting in accordance with their best judgment. Our board of directors, after the recommendation of its special committee and after careful consideration, has unanimously approved the merger agreement and the merger and charter amendments contemplated by the merger agreement and recommends that you vote **For** approval of the merger proposal and the charter proposal.

Record Date and Voting Power

Our board of directors has fixed the close of business on September 23, 2002 as the record date for the determination of stockholders entitled to notice of, and to vote at, the meeting. As of the record date, there were 31,915,014 shares of Konover common stock outstanding, held by approximately 344 stockholders. Common stockholders of record on the record date will be entitled to one vote per share on any matter that properly comes before the meeting and any adjournment or postponement of that meeting. No other class of stock is entitled to vote at the meeting.

Quorum and Vote Required

Our charter and bylaws require (1) the presence, in person or by proxy, of the holders of shares of common stock representing at least a majority of the votes entitled to be cast at the meeting in order to constitute a quorum; (2) the affirmative vote of the holders of shares of Konover common stock representing a majority of the votes entitled to be cast at the meeting in order to approve the merger proposal and most of the charter amendments contained in proposal two; and (3) the affirmative vote of two-thirds of the votes entitled to be cast in order to approve the additional charter amendments contained in proposal two principally relating to stock

transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock. For purposes only of determining the presence or absence of a quorum for the transaction of business, abstentions will be counted as present at the meeting. Abstentions and broker non-votes will have the same effect as a vote against the merger proposal and the charter proposal. Broker non-votes are proxies from brokers or other nominees indicating that they have not received instructions from the beneficial owner or other person entitled to vote the shares which are the subject of the proxy on a particular matter with respect to which the broker or other nominee does not have discretionary voting power.

As of the record date, our directors, executive officers, and their affiliates, all of whom intend to vote **For** approval of the merger proposal and the charter proposal beneficially owned an aggregate of 21,061,729 shares of our common stock (not including shares underlying unexercised options), representing approximately 66% of our common stock outstanding on the record date. This includes 21,052,631 shares of our common stock that Prometheus owns. Prometheus has entered into a voting agreement requiring it to vote **For** approval of the merger proposal and the charter proposal. See The Merger and Related Agreements Voting Agreement.

Proxies, Voting and Revocation

Shares of common stock represented at the special meeting by properly executed proxies received before or at the special meeting, and not revoked, will be voted at the special meeting, and at any adjournment or postponement of that meeting, in accordance with the instructions on those proxies. If a proxy is executed and submitted without instructions, except for broker non-votes, the shares of common stock represented by that proxy will be voted **For** the approval of the merger proposal and the charter proposal. Proxies are being solicited on behalf of our board of directors. Shares held in the name of your broker, or in street name, will be voted by your broker according to your instructions. Your broker will provide you with directions regarding how to instruct your broker to vote your shares.

You may revoke a proxy at any time before it is voted at the special meeting by:

(1) delivering to our secretary a written notice, bearing a later date than the previously delivered proxy, revoking the proxy;

(2) executing, dating, and delivering to our secretary a subsequently dated proxy; or

(3) attending the meeting and voting in person. Attendance at the meeting will not, by itself, constitute revocation of a proxy.

Any written notice revoking a proxy should be delivered to: Marcus B. Liles, III, Secretary, Konover Property Trust, Inc., 3434 Kildaire Farm Road, Suite 200, Raleigh, North Carolina 27606. If you have instructed a broker to vote your shares, you must follow directions received from the broker in order to change your vote or to vote at the special meeting.

Solicitation of Proxies and Expenses

We will bear our own cost of soliciting proxies. We will reimburse brokerage houses, fiduciaries, nominees, and others for their out-of-pocket expenses in forwarding proxy materials to beneficial owners of our common stock held in their names. We have not retained the services of any third parties to assist us in the solicitation of proxies. We estimate that the costs to solicit proxies, including printing and postage, will be approximately $60,000. Original solicitation of proxies by mail may also be supplemented by telephone or personal solicitation by our directors, officers or other regular employees. We will not pay our directors, officers or other regular employees any additional compensation for these services.

Table of Contents

The Parties Involved in the Merger

Konover

Konover, formerly FAC Realty Trust, Inc., is a self-advised and self-managed real estate investment trust (REIT) headquartered in Raleigh, North Carolina. As a REIT, we are principally engaged in the acquisition, development, ownership and operation of retail shopping centers in the Southeastern United States. As of September 23, 2002, the record date, we owned directly or through joint ventures 37 shopping centers in 7 states with approximately 4.8 million square feet.

Our revenues are primarily derived under real estate leases with national, regional, and local retailing companies. The majority of the leases with our tenants have terms of between five and ten years and are triple-net leases, which require tenants to pay their pro rata share of utilities, real estate taxes, insurance and operating expenses. Some tenant leases do provide for exclusions of certain expenses and for expense caps, and we have modified some leases to a modified gross rent with annual increases. Our brand tenant mix at our properties feature retailers such as Circuit City, Home Depot, Kmart, Staples, and grocers such as Food Lion, Publix, Kroger, BiLo, Winn Dixie, and Harris Teeter.

We were incorporated on March 31, 1993 to qualify as a real estate investment trust under federal income tax laws. On December 17, 1997, following stockholder approval, we changed our domicile from the State of Delaware to the State of Maryland. The reincorporation, was accomplished through the merger of FAC Realty, Inc. into its Maryland subsidiary, Konover Property Trust, Inc. (formerly FAC Realty Trust, Inc.). Following the reincorporation, on December 18, 1997, we reorganized as an umbrella partnership real estate investment trust. We then contributed to KPT Properties, L.P. (formerly FAC Properties, L.P.), a Delaware limited partnership, all of our assets and liabilities. In exchange for Konover s assets, Konover received OP Units in the Operating Partnership in an amount and designation that corresponded to the number and designation of outstanding shares of stock of Konover at the time. We are the sole general partner of the Operating Partnership and own a 97.0% interest in the Operating Partnership as of the record date. We conduct substantially all of our business and own all of our assets through the Operating Partnership (either directly or through subsidiaries) such that an OP Unit is economically equivalent to a share of our common stock.

Our address and phone number, and the address and phone number of our executive officers and directors (except for Messrs. Ross, Ticotin, and Zobler), are:

3434 Kildaire Farm Road
Suite 200
Raleigh, North Carolina 27606
(919) 372-3000

The address and phone number of Messrs. Ross, Ticotin and Zobler are:

Lazard Frères Real Estate Investors LLC
30 Rockefeller Center, 50th Floor
New York, New York 10020
(212) 632-6000

The name, citizenship, principal occupation or employment, and statement as to criminal and judicial proceedings during the past five years of the directors and executive officers of Konover is set forth in Appendix I to this proxy statement.

Table of Contents

KPT Properties, L.P.

KPT Properties, L.P., which is referred to in this proxy statement as the Operating Partnership, is a Delaware limited partnership through which we conduct substantially all of our operations. Konover is the sole general partner of the Operating Partnership. Konover owns, either directly or indirectly through our wholly-owned subsidiary KPT Properties Holding Corp., a 97% interest in the Operating Partnership as of the record date. See the description above for additional information on the relationship between Konover and the Operating Partnership. The Operating Partnership s address and phone number is:

3434 Kildaire Farm Road
Suite 200
Raleigh, North Carolina 27606
(919) 372-3000

During the last five years, the Operating Partnership has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), has not been a party to any civil proceeding of a judicial or administrative body of competent jurisdiction, and is not or was not, as a result of such proceeding, subject to a judgment, decree, or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws, or finding any violation with respect to such laws. See description above regarding Konover, the Operating Partnership s general partner. The name, citizenship, principal occupation or employment, and statement as to criminal and judicial proceedings during the past five years of the directors and executive officers of Konover is set forth in Appendix I to this proxy statement.

KPT Acquisition, L.P.

KPT Acquisition, L.P. is a Delaware limited partnership that was formed by Konover for the sole purpose of completing the OP Merger. It was formed in October 2002 and has not carried on any activities to date other than activities incident to its formation. Konover is the sole general partner of KPT Acquisition, L.P. In the OP Merger, KPT Acquisition, L.P. will merge into the Operating Partnership, with the Operating Partnership being the surviving entity. KPT Acquisition, L.P. s address and phone number is:

3434 Kildaire Farm Road
Suite 200
Raleigh, North Carolina 27606
(919) 372-3000

During the last five years, KPT Acquisition, L.P. has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), has not been a party to any civil proceeding of a judicial or administrative body of competent jurisdiction, and is not or was not, as a result of such proceeding, subject to a judgment, decree, or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws, or finding any violation with respect to such laws. See description above regarding Konover, KPT Acquisition, L.P. s general partner. The name, citizenship, principal occupation or employment, and statement as to criminal and judicial proceedings during the past five years of the directors and executive officers of Konover is set forth in Appendix I to this proxy statement.

PSCO Acquisition Corp.

PSCO s address and phone number are:

PSCO Acquisition Corp.
c/o The Corporation Trust Incorporated
300 East Lombard Street
Baltimore, Maryland 21202
410-539-2837

PSCO is a Maryland corporation that was formed by Prometheus and Kimkon for the sole purpose of completing the merger with Konover as contemplated by the merger agreement. PSCO was incorporated in June 2002 and has not carried on any activities to date other than activities incident to its formation, as contemplated by the merger agreement and in connection with the filing of a Schedule 13E-3 with the Securities and Exchange Commission in connection with the merger. Immediately before the merger and as a result of contributions made by Prometheus and Kimkon to PSCO pursuant to the co-investment agreement, substantially all of PSCO s assets will consist of:

- 16,615,922 shares of Konover common stock contributed by Prometheus;
- all of Prometheus s rights and obligations under the contingent value right agreement, dated February 24, 1998, with Konover, also contributed by Prometheus; and
- Kimkon s contribution of $35,554,438.50 in cash.

The LFSRI II Funds have guaranteed Prometheus s contribution obligations under the co-investment agreement, and Kimco has guaranteed Kimkon s contribution obligations under the co-investment agreement. See The Merger and Related Agreements Co-Investment Agreement. Information relating to Prometheus is set forth below under The Prometheus Parties, and the name, business address, citizenship, and principal occupation or employment of the directors and executive officers of Prometheus are set forth in Appendix F to this proxy statement. Information relating to Kimco, Kimco Realty Services, and Kimkon, and the name, business address, citizenship, and principal occupation or employment of the directors and executive officers of Kimco are set forth in Appendix G to this proxy statement.

As of the date of this proxy statement, Mark S. Ticotin, a Konover director designated by Prometheus and the Managing Principal of LFREI, and David B. Henry, the Vice Chairman and Chief Investment Officer of Kimco, serve as the directors of PSCO. The officers of PSCO as of the date of this proxy statement are as follows: David B. Henry is the President and Treasurer; Michael V. Pappagallo, Vice President and Chief Financial Officer of Kimco, is a Vice President and Assistant Secretary; Mark S. Ticotin is the Chairman and Secretary; and Andrew E. Zobler, a Konover director designated by Prometheus and a Principal of LFREI, is a Vice President and Assistant Secretary.

During the last five years, PSCO has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) nor has been a party to any civil proceeding of a judicial or administrative body of competent jurisdiction, and is or was, as a result of such proceeding, subject to a judgment, decree, or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws, or finding any violation with respect to such laws.

The name, business address, citizenship, and principal occupation or employment of the directors and executive officers of PSCO are set forth in Appendix H to this proxy statement.

The Prometheus Parties

Prometheus Southeast Retail Trust,
Prometheus Southeast Retail LLC,
LFSRI II SPV REIT Corp.,
LF Strategic Realty Investors II L.P.,
LFSRI II Alternative Partnership L.P.,
LFSRI II-CADIM Alternative Partnership L.P.,
Lazard Frères Real Estate Investors L.L.C., and
Lazard Frères & Co. LLC

The address and phone number of Prometheus, PSLLC, SPV, the LFSRI II Funds, and LFREI are:

c/o Lazard Frères Real Estate Investors L.L.C.
Attn: General Counsel
30 Rockefeller Plaza
New York, New York 10020
(212) 632-6000

The address and phone number of LFC are:

Lazard Frères & Co. LLC
Attn: General Counsel
30 Rockefeller Plaza
New York, New York 10020
(212) 632-6000

Prometheus, a Maryland real estate investment trust, and PSLLC, a Delaware limited liability company, were formed to acquire and hold the common stock we issued in 1998 pursuant to a stock purchase agreement between Konover and PSLLC. PSLLC owns 100% of the common stock of Prometheus. As of the record date, Prometheus owned 21,052,631 shares of our common stock, representing approximately 66% of our outstanding common stock. The name, business address, citizenship and principal occupation or employment of the directors and executive officers of Prometheus is set forth in Appendix F to this proxy statement.

SPV, a Delaware corporation, is a holding company and is the sole member of PSLLC. The name, business address, citizenship and principal occupation or employment of the directors and executive officers of SPV is set forth in Appendix F to this proxy statement.

Each of the LFSRI II Funds are investment partnerships, organized as limited partnerships under the laws of the State of Delaware, formed to invest in companies active in the real estate industry. The LFSRI II Funds together own all of the common stock of SPV. Their respective ownership of the common stock of SPV follows: LFSRI II has 86.1592%; LFSRI II-Alternative has 10.3806%; and LFSRI II-CADIM has 3.4602%.

LFREI, a New York limited liability company, is the general partner of each of the LFSRI II Funds. LFREI s activities consist principally of acting as general partner of several real estate investment partnerships that are affiliated with LFC. LFREI s investment decisions must be approved by its investment committee. The name, business address, citizenship, and principal occupation or employment of the executive officers of LFREI and the members of the LFREI investment committee is set forth in Appendix F to this proxy statement.

LFC is a New York limited liability company and the managing member of LFREI. LFC s activities consist principally of financial advisory services. On a day-to-day basis, LFC is run by a management committee. LFC is wholly owned by Lazard LLC, a Delaware limited liability company, and therefore Lazard LLC may be viewed

as controlling LFC. Lazard LLC is a holding company. The Head of Lazard controls Lazard LLC, subject to the approval of certain significant matters by the Lazard Board of Lazard LLC. The name, business address, citizenship and principal occupation or employment of the members of the management committee of LFC is set forth in Appendix F to this proxy statement. The principal business office of Lazard LLC is 3711 Kennett Pike, Suite 120, P.O. Box 4649, Greenville, Delaware 19807-4649. The name, business address, citizenship, and principal occupation or employment of the members of the Lazard Board of Lazard LLC is set forth in Appendix F to this proxy statement.

During the last five years, none of the Prometheus Parties, nor any of the individuals listed on Appendix F to this proxy statement, has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) nor has been a party to any civil proceeding of a judicial or administrative body of competent jurisdiction, and is or was, as a result of such proceeding, subject to a judgment, decree, or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws, or finding any violation with respect to such laws.

Table of Contents

Special Factors

Background of the Merger

Chronology

Our board of directors approved the merger agreement with PSCO after an extensive evaluation of strategic alternatives available to us. Our evaluation of our strategic alternatives began during 2000 and was based in part on the factors that led to the decision to sell our portfolio of outlet properties. By August 2000, for reasons discussed in more detail below, our board of directors determined that it should seriously consider selling the outlet portfolio.

In light of this decision, Mr. Morton, who was then our CEO, invited Donaldson, Lufkin and Jenrette, Inc. (**DLJ**) and another financial advisory firm to the next meeting of our board of directors, which was held September 28 and 29, 2000. Although we had engaged both investment banks previously on other matters, neither had been engaged to represent us with respect to a sale of our outlet portfolio or any other strategic alternative. Additionally, neither bank conducted significant due diligence with respect to our portfolio before attending the meeting. The board of directors viewed their discussions as, in part, solicitations for our business. At this meeting, the board of directors discussed with DLJ and the other firm certain potential strategic alternatives available to us that might yield higher shareholder value as compared to the continued operation of the company on a stand-alone basis.

Following the discussions with the investment banks, the board of directors remained convinced for the reasons noted below that our most pressing need was to sell our outlet portfolio and then focus on a plan to operate without the outlet properties. At our November 1, 2000 board of directors meeting, the board formally resolved to market for sale our outlet property portfolio and three community center properties that were part of the portfolio of properties (primarily outlets) securing our $72 million securitized financing facility. In reaching this decision, the board noted the following factors:

- Certain debt associated with the outlet properties matured in June of 2002, and we likely could not refinance a material portion of this debt on acceptable terms or possibly any terms;
- A sale of the entire company was not likely to maximize value at that time because few buyers would be interested in acquiring both outlet centers and community shopping centers;
- Our long-standing strategy of becoming a community-center company with a reduced reliance on outlet properties;
- The complexity and expense of operating both portfolios, the importance of size in operating competitively in the outlet center business, and each portfolio s relatively small size, which made economies of scale difficult to realize;
- The oversupply and declining values of outlet properties in general and the risk that, with our outlets located primarily outside of urban areas, oversupply would disproportionately affect our outlet properties;
- The declining net operating income of the Vanity Fair-anchored outlet centers and the uncertainty of Vanity Fair renewing their leases, which expired primarily between 2002 and 2005;
- The difficulty in forecasting cash flow from the outlet properties because of the short-term nature of the leases on those properties;
- The heightened market risks of the outlet portfolio, especially our Nashville and Las Vegas outlets; and
- The financial condition of outlet tenants as being generally less favorable than that of strip center tenants.

On November 8, 2000, our board of directors resolved to engage Credit Suisse First Boston, which had recently acquired DLJ, as Konover s financial advisor in connection with selling the outlet portfolio. One of our directors, Mr. Gildea, favored the other investment bank. This preference was in part because he believed that they were further along than DLJ in terms of the amount of work they had already devoted to the project and that they had more experience in this area. The remaining directors voted in favor of Credit Suisse First Boston. The board s decision was based in part on the belief that DLJ (now Credit Suisse First Boston) was at least as capable as the other firm to work on the engagement and that engaging DLJ would not significantly delay a sale of the outlet portfolio. Moreover, we had a $600,000 credit with DLJ, which Credit Suisse First Boston, as successor to DLJ, was contractually obligated to apply against future investment banking fees payable by Konover. On December 6, 2000, we engaged Credit Suisse First Boston to serve as financial advisor in connection with selling the outlet portfolio.

On January 18, 2001, our board of directors asked Credit Suisse First Boston to discuss our broader strategic alternatives. It was also at this time that several members of the board of directors expressed their view that a change in our management would be appropriate.

On February 26, 2001, at a meeting of our board of directors, Credit Suisse First Boston made a preliminary presentation to our board of directors with respect to the outlet sale process and various strategic alternatives available to Konover beyond the sale of the outlet properties, including the sale or merger of the company as a whole, a going-private transaction, selling the outlet centers and remaining a public community center REIT, and selling the outlet centers and community centers in separate transactions. Mr. Morton was not present for this discussion because he had indicated an interest in purchasing the outlet portfolio.

Also at this meeting, Credit Suisse First Boston reviewed with our board of directors preliminary implied asset value reference ranges for our community center portfolio based on (i) asset values of our community center portfolio, (ii) selected publicly traded community center companies and (iii) selected community center REIT merger and acquisition transactions. The community center asset valuation analysis yielded an implied aggregate asset value range of approximately $321.318 million to $378.514 million, derived by capitalizing the actual calendar year 2000 net operating income for our community center portfolio utilizing capitalization rates ranging from 9.5% to 11.5% and adding asset values for Millpond Village, the community center joint ventures and the investment in Sunset KPT Investment, Inc., referred to herein as the additional community properties. The selected publicly traded community center companies analysis yielded implied asset value reference ranges of approximately $339.1 million to $366.3 million, $341.3 million to $365.4 million and $316.6 million to $404.6 million, based on the application of selected publicly traded community center multiples to actual calendar year 2000 and projected calendar year 2001 funds from operations and actual calendar year 2000 net operating income of our community center portfolio. The selected community center REIT merger and acquisition transactions analysis yielded an implied asset value reference range of approximately $337.5 million to $387.8 million, based on the application of selected community center REIT merger and acquisition transaction multiples to actual calendar year 2000 net operating income of our community center portfolio and adding asset values for the additional community properties.

As part of this presentation, Credit Suisse First Boston also reviewed with our board of directors preliminary implied per share equity reference ranges for our common stock based on (i) net asset values of Konover and (ii) the premiums paid in selected retail merger and acquisition transactions. The net asset valuation analysis yielded implied per share equity reference ranges of $4.73 to $6.17 and $4.16 to $5.42, before and after giving effect to the exercise of the contingent value rights, respectively, derived by capitalizing the actual calendar year 2000 net operating income of our outlet center portfolio and our community center portfolio utilizing capitalization rates ranging from 11.0% to 12.0% and taking into account the estimated value of other assets and liabilities. The premiums paid analysis yielded implied per share equity reference ranges of $4.91 to $5.04 and $4.83 to $4.93, based on the application of the average and median premiums, respectively, over various periods prior to the public announcement of the selected transactions to the closing per share price for our common stock over

corresponding periods. As noted above, these analyses related to implied per share values for Konover as an entirety, including both the outlet center portfolio and the community center portfolio.

The preliminary materials dated February 26, 2001 described above and the preliminary materials dated July 25, 2001, August 22, 2001, August 30, 2001, November 12, 2001, November 20, 2001, January 16, 2002, February 4, 2002 and February 7, 2002 described below in Background of the Merger Chronology do not constitute an opinion as to the fairness from a financial point of view to holders of our common stock of any potential transaction consideration and do not constitute a recommendation to holders of our common stock as to how they should vote or act with respect to any matter relating to the transaction with PSCO. Holders of our common stock are cautioned against undue reliance on such materials as a basis for making any investment decision. To the extent that the information contained in the preliminary financial analyses contained in these materials is based on market data, such data is based on market data as of a date on or about the date of such materials and is not necessarily indicative of current market conditions. In preparing the preliminary materials, Credit Suisse First Boston assumed and relied upon, without independent verification, the accuracy and completeness of the information supplied or otherwise made available to it for purposes of its analyses. With respect to the financial forecasts provided to Credit Suisse First Boston, Credit Suisse First Boston was advised, and assumed, that the financial forecasts were reasonably prepared on bases reflecting the best then-currently available estimates and judgments of the managements of the relevant parties as to future financial performance. The preliminary financial analyses were intended primarily as a framework for further discussion and, accordingly, were not relied upon by Credit Suisse First Boston in rendering its opinion dated June 23, 2002. The estimates and ranges of valuations resulting from the analyses contained in the preliminary materials are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable. The preliminary materials presented by Credit Suisse First Boston on such dates have been included as Exhibits (c)(11), (c)(10), (c)(9), (c)(8), (c)(7), (c)(6), (c)(5), (c)(4) and (c)(3) to the Schedule 13E-3 filed with the SEC in connection with the merger and the summaries thereof are qualified in their entirety by reference to such exhibits. Credit Suisse First Boston did not prepare the preliminary materials with a view toward public disclosure. These preliminary materials are summarized herein only because such information was made available to our board of directors, the special committee or members thereof.

Before the conclusion of the meeting, the board of directors resolved to further engage Credit Suisse First Boston to assist us in exploring more broadly our strategic alternatives beyond the sale of the outlet portfolio.

On March 7, 2001, Mr. Morton resigned as our CEO and as a board member, noting that he was interested in acquiring the outlet portfolio. Mr. Morton s separation arrangement was negotiated over several weeks before the March 7 announcement of his resignation. Our board of directors appointed Mr. Michael Maloney as our interim CEO, to serve in that capacity on a part-time basis. On March 7, 2001, the board of directors also voted to terminate Mr. Miniutti as chief operating officer.

On March 23, 2001, Credit Suisse First Boston discussed with the board of directors the status of the marketing process for the outlet and the community center portfolios. On April 5, 2001, Credit Suisse First Boston reported at a meeting of our board of directors that bids on the outlet properties were being requested by the end of the month. Also on this date, Prometheus terminated a letter agreement with Mr. Maloney which had required him to resign from our board of directors at Prometheus s request.

On May 3, 2001, at the direction of the board of directors, Credit Suisse First Boston met with Prometheus and Michael Maloney primarily to discuss the outlet center marketing process. At that time, Credit Suisse First Boston also reported that Transwestern Investment Company (**Transwestern**) and Morgan Stanley had expressed interest in both the community center and outlet portfolios. Transwestern was considering a possible asset acquisition but needed more time to decide whether it wanted to pursue a transaction with us. Transwestern later submitted a joint proposal with New Plan Excel Realty Trust Inc. for all of our assets on June 29, 2001. Morgan Stanley verbally expressed interest in acquiring the entire company. Credit Suisse First Boston also reported that Mr. Morton, who at this time was aligned with Morgan Stanley, had requested an additional four

Table of Contents

weeks to make a proposal because his potential financial sponsors had not had adequate time to review certain due diligence information about our outlet center portfolio. Morgan Stanley never submitted a written offer to acquire the company.

On May 18, 2001, our board of directors held a meeting at which the directors agreed that it was important to fill the vacancies on the board of directors which were created by the resignations of Messrs. Morton and Miniutti from the board. The directors also agreed that our management should work with our legal counsel to draft resolutions authorizing the formation of a special committee of our board of directors to oversee the consideration of alternatives for our community center portfolio.

By a letter dated May 29, 2001, Mr. Gildea, who at that time was an owner of our Series A convertible preferred stock, resigned from the board of directors.

At a board of directors meeting on May 30, 2001, the board agreed that Mr. Maloney, who had been designated to serve on our board by Prometheus pursuant to its stockholders agreement with us, dated February 24, 1998, would no longer be deemed one of Prometheus s three board designees. In addition, Credit Suisse First Boston discussed with our board the marketing efforts for the outlet properties and the community centers. With respect to the community centers, Credit Suisse First Boston reported that to date 48 parties had received confidentiality agreements, of which 30 executed confidentiality agreements. Credit Suisse First Boston also reported that on May 20 and 21, 2001, at the direction of the board of directors, it had met at the International Conference of Shopping Centers with 11 of those entities that had executed confidentiality agreements.

On June 19, 2001, our board of directors discussed various proposals with respect to the outlet portfolio, including a proposal from CPG Partners, L.P. (**Chelsea**), the operating partnership of Chelsea Property Group Inc., and recommended proceeding with negotiations with Chelsea. J. Richard Futrell, Jr. resigned from the board of directors as of the conclusion of the board meeting. Before concluding the meeting, the board of directors unanimously elected to fill the four vacancies on the board of directors with Ms. Goldberg and Messrs. Orr, Ross, and Schonberger and appointed Ms. Goldberg and Messrs. Eberle and Orr to the special committee. Mr. Ross was chosen by Prometheus and joined Messrs. Ticotin and Zobler as Prometheus s three board designees.

The special committee was formed to evaluate, with the assistance of Credit Suisse First Boston or any successor financial advisor chosen by the special committee, the strategic alternatives available to us with respect to our community center portfolio and to make a recommendation to the board of directors. The special committee was also formed to negotiate with Prometheus to amend, modify, or replace the contingent value rights. Our board of directors believed that certain strategic alternatives, such as a sale of Konover, were complicated by the existence of the contingent value rights.

The special committee was given the power to:

- direct all aspects of the engagement of Credit Suisse First Boston or any successor or other financial advisor chosen by the special committee;
- engage its own counsel and other experts as it required;
- direct the performance of our employees and agents with respect to analyzing strategic alternatives; and
- negotiate and execute confidentiality and standstill agreements and other agreements with respect to reimbursing expenses of prospective buyers or strategic partners.

The special committee held its first meeting on June 27 and 28, 2001 and appointed Mr. Eberle to act as its chairman. On the 27th, Mr. Kelly, our Chief Financial Officer, reviewed our financial condition and the contingent value right agreement with the special committee. In addition, the special committee sought the views of Alston & Bird LLP, counsel to Konover, on various matters.

On June 28, 2001, the special committee engaged Kaye Scholer LLP to serve as its counsel. Kaye Scholer, Credit Suisse First Boston, and Mr. Kelly attended the special committee meeting on June 28, 2001. Mr. Kelly discussed our financial condition. Kaye Scholer discussed with the special committee its duties and obligations in serving as members of a special committee. Also at this meeting, it was determined that Credit Suisse First Boston was to report to and take its directions from the special committee. A general discussion followed concerning the status of the outlet properties sale and other possible strategic alternatives and the rights of Prometheus under the contingent value right agreement.

On June 29, 2001, New Plan Excel Realty Trust Inc. (**New Plan**), which had previously expressed an interest in the community centers, and Transwestern, which had been interested in both the community center and outlet portfolios, submitted a joint proposal to purchase all of our assets, indicating that they valued the assets, before netting out our debt or transaction fees, in a range of $520 to $560 million. Our former president, Mr. Morton, was also affiliated with the joint bid. We asked that New Plan and Transwestern also submit separate bids on the two portfolios so that we could compare their offer prices with the other bidders for the two portfolios. In early July, before entering into an agreement to sell the outlet center portfolio, Credit Suisse First Boston and Mr. Maloney, at the direction of the special committee, met with representatives of New Plan and Transwestern to discuss their joint bid for all of our assets. We concluded that New Plan and Transwestern would need more time to develop their bid and that their final bid would probably reflect a valuation of our assets materially lower than they initially estimated.

On July 12, 2001, we entered into an agreement with Chelsea to sell our outlet portfolio, consisting of 28 outlet properties and three community centers. The sale was subject to customary closing conditions and was expected to close by September 30, 2001.

The special committee held a meeting on July 25, 2001. In addition to the members of the special committee and Kaye Scholer, Messrs. Maloney, Ross, Ticotin, and Zobler attended the first part of the meeting, as did representatives of Credit Suisse First Boston. Credit Suisse First Boston made a preliminary presentation to the special committee. Credit Suisse First Boston also informed the special committee that, at the direction of the board of directors before the formation of the special committee, it had contacted 128 entities regarding their potential interest in acquiring the community center portfolio and distributed a summary offering memorandum to 100 parties that expressed initial interest in a potential transaction. It also sent more detailed property information to the 58 parties that subsequently signed confidentiality agreements. Twenty-one parties indicated interest in purchasing community center properties, 17 of which submitted bids, including 13 bids for the entire community center portfolio. The bids for the community center portfolio ranged from $266 million to $346 million before netting out our debt or transaction fees. At this point in time, the community center portfolio included our Mt. Pleasant, South Carolina center and our Shoreside (Outer Banks), North Carolina center. We subsequently disposed of these two centers. Further, it should be noted that these amounts are not the net amounts that would be available to us; for example, we would have had to repay debt and satisfy loan assumption fees and transaction costs. Credit Suisse First Boston and the special committee discussed the possibility that, based on Credit Suisse First Boston s prior experience in similar bidding situations and some of the assumptions the bidders had made, the bids at the higher end of the range would be reduced after the bidders had conducted due diligence. Since these indications of interest were so preliminary, the special committee did not attempt to calculate implied equity values with respect to these proposals. The special committee instructed Credit Suisse First Boston to obtain more information from various bidders and to encourage them to conduct some preliminary due diligence.

Also at this meeting, Credit Suisse First Boston reviewed with the special committee a preliminary net asset valuation analysis of our community center portfolio. This analysis yielded an implied per share equity reference range for our common stock, after giving effect to the liquidation of outstanding shares of our Series A convertible preferred stock, of $1.13 to $2.31, derived by capitalizing the estimated calendar year 2001 net operating income for our community center portfolio utilizing capitalization rates ranging from 10.5% to 12.0% and taking into account the estimated value of other assets and liabilities, including estimated net proceeds from

the sale of the outlet center portfolio. The results of this analysis were compared to the per share closing price of our common stock on July 19, 2001 of $2.80.

The special committee discussed various issues, including the Maryland law requirement for stockholder approval of a sale of the community center portfolio or the entire company. The special committee also discussed our alternatives if Prometheus, our majority stockholder, did not approve a proposed transaction. There followed a discussion with Messrs. Ross, Ticotin, and Zobler, the directors nominated by Prometheus, as to whether Prometheus would approve a sale of the community center portfolio at the prices reflected in the bids. Mr. Ticotin told the special committee that he would discuss with his investment committee the price at which Prometheus would be willing to approve such a sale and have an answer for the special committee within the next few weeks. Also at the July 25, 2001 special committee meeting, the special committee discussed the question of the contingent value rights with Messrs. Ross, Ticotin, and Zobler. The Prometheus designees had previously indicated that any evaluation by Prometheus of a proposed transaction would need to take account of the existence of Prometheus s contingent value rights. The representatives from Credit Suisse First Boston and Messrs. Ross, Ticotin, and Zobler then left the meeting. The special committee determined that it, together with its legal and financial advisors, should continue working with the bidders to firm up their bids, while waiting for Prometheus s response regarding the price at which it would be willing to approve a sale. It also determined that it was premature to attempt negotiating a modification or replacement of the contingent value rights with Prometheus in the absence of a proposed transaction.

The special committee held a meeting by conference call on August 10, 2001 with Kaye Scholer, Mr. Maloney, and Mr. Kelly. Mr. Kelly updated the special committee as to our cash flow and other financial information and reviewed with them materials he had sent to all members of our board of directors on August 3, 2001. Mr. Maloney updated the special committee on the status of the transaction with Chelsea and the refinancing of a $60 million term loan due upon the termination of our REMIC facility. The special committee questioned both Mr. Maloney and Mr. Kelly as to our long-term prospects on a stand-alone basis. Our management believed that we could meet our short-term obligations if the Chelsea transaction and related debt refinancing closed. However, management indicated that it was unlikely that we could maintain dividend payments and that we would have to make substantial investments to improve the condition of our properties. In addition, management noted that overhead costs and the costs associated with being a public company were quite high relative to our size, especially after completion of the outlet properties sale to Chelsea. Mr. Eberle then reported to the special committee that our audit committee had recommended that we not pay a dividend for the second quarter in an effort to preserve our cash. Mr. Maloney and Mr. Kelly then left the meeting.

Mr. Eberle and Kaye Scholer reported back to the special committee that the Prometheus representatives had discussed price ranges in which they might be willing to approve a sale of our community center portfolio. Depending on the transaction and the treatment of the contingent value rights, an acceptable price would be at the high end of the range of bids that had been submitted. The special committee discussed various types of transactions, such as a merger, liquidation, or sale of assets. Also at this meeting, the special committee discussed with Credit Suisse First Boston various potential transaction structures, including that a sale of assets followed by liquidation would involve substantial transaction costs, mainly involving loan breakage fees, the continuing expenses of remaining a public company during the liquidation process, the expenses involved in setting up a liquidating trust, and the probability of having to hold reserves for some time to cover indemnity obligations under asset sale agreements. The special committee decided to solicit bids for mergers as well as a sale of assets. At this meeting, the special committee also discussed with Credit Suisse First Boston the belief that the contingent value rights complicated the marketing of the community center portfolio. The special committee directed Credit Suisse First Boston to inform potential bidders that the contingent value rights would be handled separately and that they need not factor the contingent value rights into their bids. The special committee then discussed various ways to value the contingent value rights. There was a general consensus among the special committee members that some discount based on a present value formula would be appropriate. The special committee determined to begin its negotiations with Prometheus using a 15% present value discount. Fifteen

percent was the annual return required during the five-year measurement period to avoid any obligation under the contingent value right agreement in 2004.

At the board of directors meeting on August 21 and August 22, 2001, Credit Suisse First Boston made a preliminary presentation to our board of directors on the discussions with potential bidders interested in the community center portfolio. Credit Suisse First Boston and the board of directors discussed the bidding process, the 17 entities that submitted bids, including the 13 that submitted bids for the entire community center portfolio, the terms of the bids, and trends in the REIT industry in general. The special committee then determined to narrow the bidders down to four or five and continue negotiations with them. The board of directors discussed the benefits of a merger transaction compared with an asset sale. The board of directors also discussed the timing and various liabilities that might be associated with different types of transactions.

Also at this meeting, Credit Suisse First Boston reviewed with our board of directors a preliminary net asset valuation analysis of our community center portfolio utilizing the same methodology as the net asset valuation analysis reviewed with our board at its July 25, 2001 meeting. This analysis yielded an implied per share equity reference range for our common stock of $0.98 to $2.21, as compared to the per share closing price of our common stock on August 21, 2001 of $2.10.

The special committee reported to the board of directors that it had been working with its advisors and had instructed Credit Suisse First Boston to continue to provide information to prospective bidders for the community center portfolio and to work with such bidders to help them formalize bids. However, the expressions of interest were still in the preliminary stage.

On August 30, 2001, Credit Suisse First Boston delivered a preliminary presentation to the Prometheus designated directors and Mr. Maloney. The preliminary presentation reviewed the structure and mechanics of various strategic alternatives that might be available to Konover to enhance shareholder value, including stock-for-stock and assets-for-stock transactions, reverse mergers, transactions involving earn-outs, joint ventures and a going-private transaction and the advantages and disadvantages of each.

Our board of directors met again on September 13, 2001. Mr. Eberle reported to the board of directors that the special committee, together with its advisors, was exploring a number of transaction structures. Those under consideration included a merger, joint venture, and asset sales. Potential bidders had been encouraged to continue their diligence process and to consider bidding under each of these structures. The special committee also informed the board of directors that it had asked our management to analyze what we would look like after the outlet sale if we continued on a stand-alone basis and did not enter into an extraordinary transaction.

On September 25, 2001, we closed the sale of the outlet portfolio with Chelsea for a price of $180 million, including the assumption and pay down of approximately $163 million of mortgage indebtedness. In connection with the sale, we also closed on a $58 million refinancing. The net proceeds from the sale and related refinancing were $14 million.

On October 5, 2001, eight potential bidders, which had submitted bids at the higher end of the value range, were sent a final bid request letter along with a new offering memorandum containing corporate information about Konover to allow them to make bids for the entire company. The bid request letter asked for bids to be submitted by November 1, 2001.

The special committee met on November 9, 2001 with its advisors. At this meeting, Credit Suisse First Boston updated the special committee as to the status of the potential transaction involving the community center portfolio. Of the eight bidders from whom the special committee requested bids on October 5, 2001, only Kramont Realty Trust (**Kramont**), Equity Investment Group, Kimco, and Archon Group, L.P. (**Archon**) responded with bids. The bid from Kramont was for a merger for an unspecified combination of Kramont stock, cash, and assumption of debt, with a stated aggregate value of $310 million, before netting out our debt and

transaction fees. The other bids were for the community center portfolio only and were asset purchases involving all cash. Another bidder, IRT Property Company, indicated that it was also working on a bid with a venture partner. At this stage of the process, Kramont was the highest bidder for the community center portfolio (which was broken out separately in its bid) as well as the only bidder for the entire company. It had also completed more due diligence than any other bidders.

The board of directors met on November 12, 2001. At this meeting, the board of directors and Credit Suisse First Boston discussed the business plans prepared by our management relating to the prospects for our business on a stand-alone basis. Management noted that they had already given termination notices to take effect in December which would reduce our staff s size to 124 employees (from a high of 284 at the beginning of 2001) and that further reductions would be needed. However, management noted that some layoffs should be delayed until a decision was reached regarding our strategic alternatives because until then it would not be clear which employees would be needed to consummate a transaction.

Also during the November 12, 2001 board meeting, Credit Suisse First Boston made a preliminary presentation to our board of directors. Credit Suisse First Boston updated the directors on the status of the potential community center transaction, including the status and financial terms of the final bids received. Credit Suisse First Boston reported that a number of potential bidders withdrew from the process after having spent considerable time reviewing Konover and our assets. One bidder cited the properties current condition as a factor in its decision.

Also at this meeting, Credit Suisse First Boston discussed with our board of directors the Kramont proposal and an overview of Kramont s business and portfolio of holdings as well as selected operational data and other information of Kramont assuming the consummation of the proposed transaction, including the potential pro forma effect of a transaction with Kramont on Kramont s funds from operations for calendar year 2002 over a range of potential equity purchase prices and leverage ratios.

In addition, Credit Suisse First Boston reviewed with our board of directors a preliminary net asset valuation analysis. This analysis yielded implied per share equity reference ranges for our common stock of $0.87 to $1.64, after giving effect to the liquidation of outstanding shares of our Series A convertible preferred stock, and $1.37 to $2.09, assuming the conversion of outstanding shares of our Series A convertible preferred stock, in each case by capitalizing the estimated calendar year 2001 net operating income for our community center portfolio utilizing capitalization rates ranging from 11.0% to 12.0% and taking into account the estimated value of other assets and liabilities. The results of this analysis were compared to the daily high trading price per share of our common stock on November 7, 2001 of $1.58.

Following the November 12, 2001 board of directors meeting and in response to a request for additional supplemental information regarding Kramont, Credit Suisse First Boston prepared additional preliminary supplemental materials, which materials were dated November 20, 2001 and delivered to our board of directors.

The preliminary materials contained information relating to Kramont that was similar to the information reviewed with our board of directors at its November 12, 2001 meeting including, among other things, a summary of the terms of the preliminary Kramont cash and stock merger proposal, an overview of Kramont s business and portfolio of holdings as well as selected operational data and other information relating to Kramont assuming the consummation of the proposed transaction, including the potential pro forma effect of a transaction with Konover on Kramont s funds from operations for calendar year 2002 over a range of potential equity purchase prices and leverage ratios.

The special committee met on November 26, 2001 with Kaye Scholer. Kaye Scholer pointed out to the special committee that our obligation to indemnify the committee members, the other directors, and our officers was set forth in our bylaws. Kaye Scholer pointed out that in a merger the surviving entity could change our bylaws to limit the indemnification obligation. Kaye Scholer also noted that nothing obligated us or any

Table of Contents

successor to maintain director and officer insurance. Kaye Scholer suggested that it would be appropriate for each of our directors and certain officers to obtain indemnification agreements from us. The special committee then directed Kaye Scholer to prepare a draft of such an indemnification agreement. The special committee also directed Kaye Scholer to start negotiations with Prometheus s counsel regarding a repurchase of the contingent value rights. They directed Kaye Scholer to seek a purchase price, either through cash or stock, which reflected a present-value discount. The special committee then discussed how various transactions would impact the holders of Series A convertible preferred stock. Kaye Scholer pointed out that the treatment of the Series A convertible preferred stockholders would depend on the form of acquisition as Konover s charter specifies different treatment of the Series A convertible preferred stockholders based on whether the form of transaction was an asset purchase followed by a liquidation, a merger, or a going-private transaction. Kaye Scholer outlined to the special committee types of proposals relating to the Series A convertible preferred stock that would be permitted under Konover s charter.

The special committee met again on December 11, 2001 with Kaye Scholer. Mr. Eberle updated the group on the status of discussions with Kramont and indicated that since the Kramont proposal was likely to involve Kramont stock as part of the consideration, Konover s and Prometheus s representatives would be conducting due diligence on Kramont and its assets during the following week. Kaye Scholer then reported that it had prepared and sent to Konover a draft indemnification agreement.

On December 6, 2001, Kramont increased its bid from $310 million to $320.5 million, including the assumption of $251 million of indebtedness. Kramont s proposed consideration was an unspecified combination of cash and stock. On December 12, 2001, representatives of Konover, Credit Suisse First Boston, and Prometheus visited Kramont s offices for a due diligence investigation of Kramont.

The special committee met on January 11, 2002. At this meeting, the special committee and representatives from Credit Suisse First Boston discussed the Kramont proposal. Four days later, the special committee met again. In addition to the special committee members, Kaye Scholer, Mr. Maloney, Mr. Kelly, and representatives of Credit Suisse First Boston participated. Credit Suisse First Boston informed the special committee that Kimco, IRT Property Company and Equity Investment Group had withdrawn from the bidding process. In withdrawing its bid, Kimco indicated that, given the facts and circumstances existing at the time, it was unsure that it would be in a position to submit a bid that met Konover s expectations. IRT Property Company indicated that its venture partner and capital source was troubled by the small size of our properties, making eventual liquidation difficult. Equity Investment Group did not indicate why it was no longer interested. The special committee then discussed the remaining bids from Kramont and Archon, of which Kramont s was the higher bid. The special committee also discussed our future financial outlook if we continued on a stand-alone basis as a public company or a private company. The special committee determined that neither of these scenarios was likely to significantly increase shareholder value in the long term. Further, both involved substantial risk primarily because of the following factors:

- the need for substantial capital to maintain the competitiveness of our properties;
- the need to refinance significant debt obligations in the short term;
- the amount of anchor-tenant space that was currently economically or physically vacant, which would be difficult to fill in the then-current economic climate;
- the risk of additional tenant bankruptcies; and
- the difficulty of retaining key employees because of our limited growth prospects.

The special committee reached a consensus that a merger with Kramont, if we could negotiate acceptable terms, offered stockholders a better opportunity than remaining a stand-alone entity. The special committee agreed to recommend to the board of directors that Konover continue pursuing negotiations for a merger with Kramont.

Table of Contents

At our board of directors meeting on January 16, 2002, Credit Suisse First Boston made a preliminary presentation to our board of directors relating to, among other things, the marketing efforts and the status of, and a chronology of significant events to date with respect to, the potential sale of our community center portfolio and a summary of the preliminary Kramont cash and stock merger proposal and the preliminary Archon cash proposal for the assets comprising our community center portfolio. Credit Suisse First Boston also discussed with our Board an overview of Kramont s business and portfolio of holdings as well as selected operational data and other information of Kramont assuming consummation of the proposed transaction.

Credit Suisse First Boston also reviewed with our board of directors preliminary implied per share equity reference ranges for our common stock based on (i) selected publicly traded community center REITs, (ii) selected community center REIT merger and acquisition transactions and (iii) net asset values of Konover. The selected publicly traded community center REITs analysis yielded implied per share equity reference ranges of $1.07 to $1.68, $0.00 to $0.48 and $0.50 to $0.70, based on the application of selected publicly traded community center REIT multiples to our annualized first half 2001 funds from operations and earnings before interest, taxes, depreciation and amortization, commonly referred to as EBITDA, in each case pro forma for the outlet center portfolio and Shoreside sales and excluding one time charges and losses in joint ventures, and projected calendar year 2002 funds from operations, respectively. The selected community center REIT merger and acquisition transactions analysis yielded implied per share equity reference ranges of $1.12 to $1.75, $0.00 to $0.67 and $0.31 to $0.67, based on the application of selected community center REIT merger and acquisition transaction multiples to our annualized first half 2001 funds from operations and EBITDA, in each case pro forma for the outlet center portfolio and Shoreside sales and excluding one time charges and losses in joint ventures, and projected calendar year 2002 funds from operations, respectively. This analysis also yielded an implied per share equity reference range of $1.51 to $1.92, based on the application of selected premiums from the selected transactions to our common stock price of $1.50 on January 11, 2002. The net asset valuation analysis yielded implied per share equity reference ranges of $0.97 to $1.82, after giving effect to the liquidation of outstanding shares of our Series A convertible preferred stock, and $1.47 to $2.26, assuming conversion of outstanding shares of our Series A convertible preferred stock, in each case by capitalizing the estimated calendar year 2002 net operating income for our community center portfolio utilizing capitalization rates ranging from 10.5% to 11.5% and taking into account the estimated value of other assets and liabilities. In each of the foregoing analyses, the implied equity reference ranges were compared to the value of the per share consideration implied by the Kramont proposal of $2.02.

In addition, Credit Suisse First Boston reviewed with our board of directors preliminary implied per share equity reference ranges for Kramont common stock based on (i) selected publicly traded community center REITs, (ii) selected community center REIT merger and acquisition transactions and (iii) net asset values of Kramont. The selected publicly traded community center REITs analysis yielded implied per share equity reference ranges of $9.51 to $14.94, $11.01 to $15.50 and $5.94 to $10.58, based on the application of selected publicly traded community center REIT multiples to Kramont s estimated calendar year 2001 and projected calendar year 2002 funds from operations and annualized third quarter 2001 EBITDA, respectively. The selected community center REIT merger and acquisition transactions analysis yielded implied per share equity reference ranges of $9.90 to $15.45, $6.86 to $14.98 and $1.68 to $9.63, based on the application of selected community center REIT merger and acquisition transaction multiples to estimated calendar year 2001 and projected 2002 funds from operations and annualized third quarter 2001 EBITDA, respectively. The net asset valuation analysis yielded an implied per share equity reference range of $10.62 to $14.60, after giving effect to the liquidation of the outstanding shares of Kramont preferred stock, by capitalizing Kramont s estimated calendar year 2002 net operating income utilizing capitalization rates ranging from 9.5% to 10.5%. In each of the foregoing analyses, the implied equity reference ranges were compared to the closing price of Kramont common stock on January 11, 2002 of $13.35.

The special committee then made a report to the board of directors which summarized various available strategies, including continuing as a stand-alone public company or selling our assets to or merging with another company. The special committee reported that it believed that it should continue to work with Kramont to

Table of Contents

negotiate a merger agreement based on the factors discussed above. In addition, the board of directors noted the need to reduce overhead costs to be profitable as a stand-alone company and the difficulty of reducing those costs while remaining a public company. After further discussion, the directors agreed that the discussions with Kramont should continue.

On January 18, 2002, a proposed form of merger agreement was sent to Kramont and on January 31, 2002, representatives of Prometheus met with Kramont to discuss Kramont s proposed term sheet.

On February 4, 2002, Credit Suisse First Boston delivered to Mr. Eberle a preliminary presentation containing an overview of Kramont s business and portfolio of holdings, Kramont s capital structure and recent dispositions of properties as well as selected operational data and other information relating to Kramont. In addition, the preliminary materials delivered to Mr. Eberle also contained preliminary implied per share equity reference ranges for Kramont s common stock identical to those contained in the January 16, 2002 presentation to our board of directors described above.

On February 6, 2002, Kramont submitted a bid to purchase the entire company in a merger with consideration consisting of only Kramont common stock at an exchange ratio of 0.15 shares of Kramont common stock for each share of our common stock. Kramont s bid assumed that we would repurchase the contingent value rights for $6 million before closing. In addition, Kramont required that we negotiate with Kramont exclusively for 30 days while it completed due diligence.

Our board of directors held a meeting on February 7, 2002. At that meeting, Credit Suisse First Boston made a preliminary presentation to our board of directors relating to, among other things, the status of negotiations with Kramont, including a chronology of significant events to date, the financial terms of Kramont s preliminary proposal to acquire Konover in a fixed exchange ratio stock-for-stock transaction, selected operational data and other information of Kramont assuming the consummation of the proposed transaction and the exchange ratio of our common stock to Kramont common stock over various periods of time. In addition, Credit Suisse First Boston also reviewed with our board of directors a preliminary exchange ratio analysis based on (i) selected publicly traded community center REITs, (ii) selected community center REIT merger and acquisition transactions and (iii) net asset values of each of Konover and Kramont. The selected publicly traded community center REITs analysis yielded implied exchange ratio reference ranges of approximately 0.07x to 0.18x, 0.0x to 0.08x and 0.03x to 0.06x, based on the application of selected publicly traded community center REIT multiples to Konover s annualized first half 2001 funds from operations and EBITDA, in each case pro forma for the outlet center portfolio and Shoreside sales and excluding one time charges and losses in joint ventures, and projected calendar year 2002 funds from operations, and Kramont s estimated calendar year 2001 funds from operations, annualized third quarter 2001 EBITDA and projected calendar year 2002 funds from operations. The selected community center REIT merger and acquisition transactions analysis yielded implied exchange ratio reference ranges of approximately 0.07x to 0.18x, 0.0x to 0.40x and 0.02x to 0.10x, based on the application of selected community center REIT merger and acquisition transaction multiples to Konover s annualized first half 2001 funds from operations and EBITDA, in each case pro forma for the outlet center portfolio and Shoreside sales and excluding one time charges and losses in joint ventures, and projected calendar year 2002 funds from operations and Kramont s estimated calendar year 2001 funds from operations, annualized third quarter 2001 EBITDA and projected 2002 forward funds from operations. The net asset valuation analysis yielded an implied exchange ratio reference range of approximately 0.07x to 0.17x, after giving effect to the liquidation of outstanding shares of our Series A convertible preferred stock and Kramont preferred stock, in each case derived by capitalizing the 2001 estimated community center portfolio net operating income and Kramont s estimated 2002 net operating income utilizing capitalization rates ranging from 10.5% to 11.5% and 9.5% to 10.5%, respectively, and in the case of Konover, taking into account the estimated value of other assets and liabilities. In the foregoing analyses, the implied exchange ratio reference ranges were compared to the exchange ratio proposed by Kramont of 0.15x.

Also at this meeting, Credit Suisse First Boston discussed the terms of an offer submitted on January 31, 2002 by The Blackstone Group. The Blackstone Group offer stated that it was for $1.65 per share but, unlike the Kramont bid, The Blackstone Group bid attributed no value to the contingent value rights. If a comparable value for the contingent value rights was deducted from The Blackstone Group bid, it would have been reduced to approximately $1.51 per share, which was substantially less than the Kramont offer. The special committee had determined that The Blackstone Group s offer was too low to pursue at that time and that The Blackstone Group should be informed of the special committee s determination in case it wished to increase its offer.

The special committee made its report to the board of directors and renewed its recommendation that we continue negotiations with Kramont with respect to a stock merger at an exchange ratio of 0.15 shares of Kramont common stock for each share of Konover common stock. Based on the February 6, 2002 closing price of Kramont s common stock, the exchange ratio had an implied equity value of $1.92 per share. The special committee requested that the members of the board designated by Prometheus indicate whether the Kramont proposal in its current form was a proposal Prometheus would find acceptable and whether Prometheus would be likely to vote its shares in favor of such a proposed merger with Kramont. The Prometheus board designees informed the board of directors and the special committee that Prometheus was not interested in receiving shares of Kramont stock as consideration and asked the special committee to ask Kramont if they would make an all-cash offer. They then discussed with the special committee whether it would be appropriate for Prometheus itself to consider making an all-cash offer for Konover. The meeting then adjourned while the special committee met separately to discuss the Prometheus response to the Kramont proposal and the Prometheus request to consider making its own all-cash offer. The special committee determined that Prometheus should, if it ultimately concluded that it desired to do so, be permitted to make an offer for Konover but that Kramont should be given the opportunity to make another offer that would include at least a substantial portion of cash. The special committee then informed the board of directors of this decision.

The board of directors also reviewed the draft indemnification agreements proposed for the special committee members, other members of the board of directors, and officers. The board of directors suggested certain modifications to the proposed forms of indemnification agreements. With those modifications, the board of directors unanimously approved the agreements.

On February 28, 2002, we sold RMC/Konover Property Trust LLC (RMC) to RMC Management Company LLC, a Florida limited liability company whose sole member is Suzanne L. Rice, a former Konover officer. Under the terms of the agreement, the entity affiliated with Ms. Rice assumed the operating assets, third-party liabilities, and property management and leasing contracts for 70 shopping centers totaling 6.5 million square feet. The transaction further reduced our staff, bringing the total number of employees to 77. Konover acquired RMC in 1999 when we were in an expansion mode and seeking development opportunities. RMC had a close relationship with Publix and the expectation was that development opportunities would arise from the relationship. In fact, no development opportunities were generated over a three-year period. During that time frame, RMC sustained considerable operating losses and the employment agreement of Ms. Rice, the President of RMC, was expiring in February of 2002. Future management fee revenue affiliated with Ms. Rice could be at risk if Konover was unable to negotiate a mutually acceptable extension of the employment agreement with Ms. Rice. Konover was not willing to extend the existing employment agreement and Ms. Rice indicated an interest in not continuing her employment. Konover shopped RMC to a number of groups, all of whom indicated no interest unless they could retain Ms. Rice. The entities who evidenced the most interest in acquiring Konover were not interested in RMC. Total assets of RMC represented less than 1% of total consolidated assets of Konover at the time of sale.

On March 7, 2002, Credit Suisse First Boston received a written offer from Coventry Real Estate Partners (**Coventry**) and its partner, Developers Diversified Realty Corporation (**DDR**). The special committee had been discussing this proposal with Coventry for a number of days but had only received this written proposal earlier that day. The offer was for an aggregate purchase price of $77.8 million or $2.35 per share payable in DDR stock and was characterized by Coventry as a stock sale but did not otherwise describe how the

transaction would be structured. The Coventry per share calculation assumed that we had 33,106,382 shares of capital stock outstanding. The proposal was also based on assumptions as to certain asset values and balance sheet items that were different from our own estimates, and the per share amounts underestimated our outstanding shares on a fully diluted basis and attributed no value to the contingent value rights.

At the special committee s direction, Mr. Eberle, Mr. Maloney, Kaye Scholer, and Credit Suisse First Boston met with Coventry and DDR to discuss their proposal on March 7, 2002. At this meeting, the participants discussed the assumptions underlying the Coventry bid. Coventry was also informed that Konover was in the process of selling a shopping center called Mt. Pleasant for what it considered an attractive price. Coventry informed the meeting participants that it was quite interested in acquiring Mt. Pleasant and that its inclusion was an important part of their bid. The special committee noted that Coventry s written offer did not address how Coventry proposed to handle the Series A convertible preferred stock, the OP Units, or the contingent value rights. One possibility raised with respect to the Series A convertible preferred stock and the OP Units was that DDR would issue a preferred security with rights similar to the existing Series A convertible preferred stock and that it would give OP Unitholders the opportunity to convert their OP Units into limited partnership interests in DDR s operating partnership. No discussion at that time was held with respect to the contingent value rights. At this meeting, Coventry also acknowledged that if its property value assumptions were inaccurate, it might reduce its bid when it had more accurate information.

The special committee, in a follow up telephone call, informed Coventry that we would proceed with our planned Mt. Pleasant sale unless Coventry was willing to enter into a binding agreement to purchase Mt. Pleasant that matched the other potential purchaser s offer price. The agreement would be binding regardless of whether Coventry was the successful bidder for all of Konover. Coventry declined to enter into the agreement.

Our board of directors met by conference call on March 7, 2002. At this meeting, the special committee and its financial advisor updated the board of directors on the current status of the Kramont negotiations. Also at this meeting, Credit Suisse First Boston, Mr. Eberle, and Mr. Maloney updated the board of directors on the discussions they had with Coventry earlier in the day. Credit Suisse First Boston also reported that the offer submitted by The Blackstone Group was still outstanding. The special committee reported that it was still negotiating the terms of the Kramont offer and that it would continue to have discussions with Coventry regarding its bid. The special committee determined that the bid from The Blackstone Group was too low to warrant further consideration. The board also authorized us to enter into a sale agreement with DRA Advisors, Inc. (**DRA**) to sell the Mt. Pleasant property for $55.3 million, including the assumption of $45.9 million of related mortgage indebtedness.

Given that Prometheus is a majority stockholder of Konover, Kramont and Prometheus had some direct contact to discuss Kramont s proposal as it applied to Prometheus s interest in Konover. During these telephonic discussions, Prometheus expressed that it was not interested in receiving any Kramont stock and requested that Kramont submit an all-cash offer to acquire Konover. However, Kramont indicated to Prometheus that it did not have the desire or ability to offer all-cash in its bid to acquire Konover.

In response to a weak market reaction to a potential sale of Konover, estimates of Konover s ability to operate as a stand-alone company and, in particular, Kramont s unwillingness to offer all cash in its proposed transaction with Konover, Prometheus decided to explore partnering with an experienced property manager to pursue a going-private transaction. By letter to the special committee, dated March 13, 2002 and delivered on the close of business on that day, Prometheus submitted a written expression of interest in a potential transaction to acquire the portion of Konover s common stock that it did not already own for $1.75 per share. The contemplated transaction involved offering to the holders of our common stock (other than Prometheus) $1.75 per share in cash in exchange for their shares of our common stock. In addition, holders of our Series A convertible preferred stock could elect to receive in the transaction either (x) a security representing a continuing interest in Konover, the terms of which had not yet been determined, or (y) $1.84 multiplied by the number of shares of common stock issuable upon conversion of such holder s shares of Series A convertible preferred stock. In this letter of interest,

Prometheus disclosed its interest in acquiring Konover if it were able to identify and partner with an experienced property manager that would, among other things, provide the cash equity for the possible going-private transaction.

On March 14, 2002, the Prometheus Parties filed an amendment to their Schedule 13D disclosing the information set forth in the letter of interest submitted to the special committee. The special committee indicated to Prometheus in a meeting promptly following the submission of its letter of interest, that it would require a value in excess of $1.75 per share in order to recommend the proposal to the board of directors.

Subsequent to delivering the letter of interest, Prometheus identified the following 13 parties as potential partners (collectively, the **Initial Potential Partners**): Benderson Property Development, Inc., New Plan Excel Realty Trust, Kimco, Regency Realty Corp., Aronov Properties, The Crosland Group, Inc., Weingarten Realty Investors, Ramco Gershenson, Transwestern Investment Company, Garden Commercial Properties, IRT Property Company, Equity Investment Group, and Edens & Avant. Some of these parties, including Kimco, had been contacted previously by Credit Suisse First Boston at the direction of the special committee and had submitted proposals or indications of interest for acquiring all or a portion of the community center portfolio. None of the parties that Prometheus wished to consider were active bidders for us at that time.

In a letter dated March 14, 2002, Kaye Scholer advised Prometheus that Prometheus was not authorized to share any confidential information concerning us with any other parties at that time. Following receipt of the letter, Prometheus made a specific request to the special committee to permit it to share confidential information about us with the Initial Potential Partners.

Throughout the remainder of the month of March 2002, Prometheus held preliminary discussions with 10 of the Initial Potential Partners. At the special committee s direction, Prometheus did not share any of our confidential information with any third parties at that time.

Coventry, together with DDR, submitted a revised proposal on March 14, 2002, which stated that the purchase price would be based on a $77.8 million valuation of our equity or $2.20 per share. The per share calculation assumed that we had 35,363,636 shares of capital stock outstanding. The proposal assumed that the holders of our Series A convertible preferred stock and the OP Units converted their securities into our common stock and assumed no value for the contingent value rights. The proposal stated that the purchase price was payable, at Coventry s option, in cash or shares of DDR stock. The offer was subject to various conditions, including due diligence, which Coventry estimated to take six to eight weeks and an exclusivity period that would run through completion of due diligence. Coventry told the special committee that the offer was contingent upon Mt. Pleasant not being sold by Konover. The Coventry proposal was characterized as a stock sale but again did not otherwise describe how the transaction would be structured and did not appear to value the contingent value rights. The special committee concluded, after discussion with its advisors, that it was not realistic to expect that Prometheus would accept that the contingent value rights had no value. Based on conversations with Coventry and an analysis of Coventry s assumptions, the special committee expected that the Coventry bid would be reduced after they had conducted due diligence. Given this belief and the preliminary nature of the Coventry bid, the special committee also concluded that it was not in the best interests of Konover to postpone the sale of Mt. Pleasant since it believed it was being sold for an attractive price and worried that the proposed purchaser might withdraw if Konover delayed the sale. The special committee agreed to renew its offer to Coventry to match the offered purchase price and transaction terms.

On March 15, 2002, Mr. Maloney received a call from Coventry offering to buy Mt. Pleasant for slightly more than the outstanding offer from DRA that he had previously discussed with them. Mr. Maloney worried that DRA would back out of the transaction if we did not execute a sale agreement with them quickly as the agreement had been fully negotiated and was ready for execution. Mr. Maloney tried to arrange a conference call meeting of the board of directors later that day to see if there was a consensus to execute the sale agreement with DRA. Five members of the board participated in the call and agreed that we should enter into the sale agreement

with DRA as had been agreed at the March 7th board meeting. The sale agreement was executed on March 15, 2002.

The special committee met with its advisors by teleconference on March 19, 2002. At this meeting Credit Suisse First Boston and the special committee discussed the status of negotiations with various bidders and reported that five different parties expressed some level of interest. Each of Kramont, Coventry, The Blackstone Group, and Prometheus had submitted written expressions of interest, and Equity One, Inc. had discussed its interest orally. Of the written proposals, the special committee valued the Kramont proposal at approximately $1.94, and believed the Coventry proposal ultimately would be comparable to the Kramont proposal after factoring in a reduction (from its stated value of $2.20 per share) for the per share value attributed to the contingent value rights and the likelihood that Coventry would lower its bid after conducting additional due diligence. Kramont was offering up to 25% cash, and since Prometheus had already indicated it was not interested in receiving Kramont stock, Kramont was asked to increase the cash portion of its proposal, in part because, as a result of the pending sale of Mt. Pleasant, Konover would have more cash on hand upon consummation of the sale of Mt. Pleasant. With respect to the Coventry proposal, Mr. Eberle noted that it was not clear whether Coventry would still be interested if we consummated the Mt. Pleasant sale. Its bid was for cash or stock of DDR at its election. The Prometheus bid ($1.75) was substantially below the Kramont bid and the special committee estimates of what the Coventry bid would ultimately be. The Blackstone Group bid was substantially below all of the others, after reductions to account for a comparable value for the contingent value rights and other inaccurate assumptions by The Blackstone Group, of approximately $1.32 per share. Equity One had suggested a $2.00 per share valuation, but it had done no due diligence. It was noted that other bidders had lowered their initial value estimates after conducting further due diligence. Equity One never subsequently submitted a written proposal and later informed Credit Suisse First Boston, without further explanation, that it was no longer interested. The special committee determined that none of the proposals was compelling at this point and determined to work, together with its advisors, with all of the bidders to try to improve their bids.

On March 21, 2002, Mr. Zobler received a message by telephone from Mr. Hipple, a Senior Vice President of Kramont. Mr. Zobler did not return Mr. Hipple s call and instead relayed the message to Credit Suisse First Boston. Mr. Zobler requested Credit Suisse First Boston to inform Mr. Hipple that all future inquiries from Kramont should be directed to the special committee and its representatives.

During this timeframe, Coventry contacted CSFB to request permission to talk to Prometheus concerning a possible joint proposal. Coventry was prevented from talking to Prometheus under the terms of its confidentiality agreement with us. The special committee considered this request. The committee determined it was inappropriate to permit two of the three remaining serious bidders to partner because it might reduce the effectiveness of the auction process. The special committee informed Coventry of its decision on March 22, 2002.

On March 27, 2002, on behalf of the special committee, Credit Suisse First Boston informed Kramont, Coventry, Prometheus, and The Blackstone Group that a draft acquisition agreement would be separately forwarded to them and that the special committee expected each bidder to finish its due diligence and be in a position to sign a definitive agreement by May 11, 2002.

On March 29, 2002, Prometheus received a letter from Kaye Scholer noting that the special committee had granted Prometheus s request to share confidential information with the Initial Potential Partners. The permission was subject to the following conditions: (1) Prometheus must enter into a confidentiality agreement with us in the form attached to the letter; (2) before disclosing Konover confidential information to any Initial Potential Partner, the Initial Potential Partner must enter into a confidentiality agreement with us in the form attached to the letter; and (3) Prometheus could not require that as a condition to holding discussions with any Initial Potential Partner, such Initial Potential Partner would be prohibited from entering into a transaction with us without the participation of Prometheus.

Table of Contents

On April 1, 2002, Prometheus negotiated revisions to the confidentiality agreement Kaye Scholer provided. On April 2, 2002, Prometheus executed the confidentiality agreement with us.

During the first week of April 2002, Prometheus distributed our form of confidentiality agreement to 11 of the 13 Initial Potential Partners. In addition, Prometheus distributed to these 11 Initial Potential Partners a second confidentiality agreement governing the treatment of confidential information relating to Prometheus and its affiliates. Certain of the Initial Potential Partners negotiated revisions to the forms. The following 10 Initial Potential Partners (collectively, the **Potential Partners**) signed confidentiality agreements with us and with Prometheus: New Plan Excel Realty Trust, Kimco, Regency Realty Corp., Institutional Investments Corporation/Aronov Properties, The Crosland Group, Inc., Weingarten Realty Investors, Benderson Property Development, Inc. together with GFI Realty Services, Inc., Transwestern Investment Company, Garden Commercial Properties, and IRT Property Company.

After receiving the executed confidentiality agreements, Prometheus held meetings with a number of the Potential Partners. In addition, Prometheus distributed due diligence materials it had prepared regarding, among other things, Konover s assets, tenant profile and indebtedness and the potential sources and uses of funds in connection with a going private transaction. Throughout the month of April 2002, Prometheus and its legal advisors conducted their due diligence investigation of us, including discussions with our management and our legal advisors.

On April 17, 2002, Kramont submitted a revised bid with an exchange ratio of 0.1375 shares of Kramont common stock (subject to a collar) for each share of Konover common stock, with the cash component comprising up to 75% of the total consideration and a request for exclusivity. Based on the closing price of Kramont s common stock on April 16, 2002, Kramont noted that its bid price would result in $1.92 per share of our common stock. After the special committee reviewed the bid, Kramont was informed that the process would continue as previously outlined and that it should complete its due diligence and submit a mark-up of the merger agreement by May 11, 2002.

On April 18, 2002, Coventry, Kramont, Prometheus and The Blackstone Group received a proposed form of merger agreement from our representatives.

On April 26, 2002, Prometheus met with one of the Potential Partners, Kimco, to discuss a possible bid to acquire us through a joint venture arrangement. The meeting participants included Prometheus, Kimco, and their respective legal counsel. No decision was made at that time regarding whether Prometheus and Kimco would make a joint bid to acquire Konover. Following the meeting, Prometheus continued to have discussions and meetings with other Potential Partners about forming a joint venture to acquire us. In addition to Kimco, Prometheus held extensive term sheet negotiations with Benderson Property Development, Inc. and GFI Realty Services, Inc., and Garden Commercial Properties.

The special committee met on April 26, 2002 with its advisors. Credit Suisse First Boston reported that Prometheus and Kimco would be going to Konover s offices in Raleigh on May 1 to conduct on-site due diligence. No other bidder had expressed an interest in an on-site visit other than Kramont. Kramont had raised the question of whether the special committee would reimburse some of its expenses if it proceeded with due diligence. The special committee determined that it would not be appropriate to do so at this time. It was expected that a number of entities would submit bids and conduct due diligence. During late April 2002, all of the remaining bidders were invited to schedule visits to conduct due diligence on us. The special committee agreed to schedule its next meeting for May 21.

On May 1, 2002, Coventry renewed its request to speak to Prometheus about a joint bid and stated that it had withdrawn as an independent bidder. The special committee again determined that it would not enhance the auction process to permit Coventry to join with Prometheus and turned down Coventry s request.

Throughout the month of May 2002, Prometheus and Kimco continued to negotiate, directly and indirectly through their respective legal advisors, a term sheet relating to a possible joint venture to acquire us.

From May 1, 2002 through May 3, 2002, Kimco, Prometheus, and the latter s legal representatives visited the data room we established at our headquarters. During this visit, and as part of their due diligence review, Prometheus and Kimco met with our management. In addition, during this same period, Kimco conducted a due diligence review of Konover at the offices of one of Prometheus s legal advisors. None of the other potential bidders visited our headquarters or met with our management during this period.

On May 6, the special committee extended the bidding deadline to May 17, 2002.

On the morning of May 10, 2002, Prometheus met with another of the Potential Partners, Garden Commercial Properties, to discuss a possible joint venture to acquire us. Legal advisors to each were also present at the meeting. At the conclusion of the meeting, Prometheus and Garden Commercial Properties agreed to postpone further discussions on forming a joint venture.

On the afternoon of May 10, 2002, Prometheus, Kimco, and their respective legal advisors met to discuss the unresolved economic terms and governance arrangements relating to the possible joint venture. They also discussed the status of their respective due diligence investigations of us.

On May 13, 2002, Mr. Zobler spoke by telephone with Mr. Eberle regarding the possibility of Prometheus and Kimco submitting a joint proposal on May 17, 2002.

On May 15, 2002, we closed the sale of Mt. Pleasant to DRA Advisors, Inc. for $55.3 million, including the assumption of $45.9 million of related mortgage indebtedness, resulting in net proceeds to us of $9.1 million after payment of transaction costs. We decided to sell Mt. Pleasant Towne Centre because we determined that we had too much capital concentrated in one asset. Mt. Pleasant was a life-style center, which was different than the majority of our portfolio of grocery-anchored centers. Because of this, we believed we could sell this particular asset separately at a higher value than prospective buyers would value it as part of their bid for the entire company. Our belief was consistent with information received from potential bidders participating in the marketing process. Additionally, the sale of Mt. Pleasant would provide cash on the balance sheet, which would be attractive to most prospective buyers or merger candidates. Mt. Pleasant Towne Centre represented approximately 14% of our total consolidated assets at the time of sale.

On May 17, 2002, Prometheus and Kimco reached an agreement in principle to make a joint proposal to acquire us pursuant to a going-private transaction. On that same day, by letter to the special committee, dated May 17, 2002, Prometheus and Kimco submitted a joint proposal for an all-cash merger between us and a newly formed entity for $1.90 per share of our outstanding common stock. In connection with their initial proposal, Prometheus and Kimco delivered to the special committee a joint mark-up of the proposed merger agreement, as well as a term sheet for the new security that would be offered in the proposed merger to holders of our existing Series A convertible preferred stock who elected not to receive cash. On May 20, 2002, the Prometheus Parties filed an amendment to their Schedule 13D disclosing the offer in this proposal.

Also on May 17, 2002, Kramont submitted a non-binding proposal to acquire by merger all of our common stock. The proposal contemplated a combination of cash and Kramont common stock with the cash portion being up to 75% of the total consideration. The value of the consideration was based upon an exchange ratio of 0.1325 shares of Kramont common stock (subject to a collar) for each share of our common stock. The proposal assumed that the contingent value rights would remain in place, and the Series A convertible preferred stock and the OP Units would be rolled over into new securities of Kramont. Kramont valued the consideration in the proposal at $1.90 per share of our outstanding common stock, based on the closing price of Kramont stock on May 16, 2002. The impact of a market increase or decrease of Kramont s common stock was limited by a 25% collar. The proposal was subject to a number of assumptions and conditions. Enclosed with the proposal was a

term sheet outlining some of the significant terms of the Kramont proposal. The proposal also required that Konover enter into a 30-day exclusivity period with Kramont to enable Kramont to complete its due diligence and to negotiate a merger agreement. Kramont did not submit a markup of the merger agreement that the special committee had previously sent them, although Kramont did submit an outline of key business issues raised by its review of the form of merger agreement.

On May 21, 2002, at 9:00 a.m., at the direction of the special committee, Mr. Eberle met with Kaye Scholer and representatives of Credit Suisse First Boston to review the joint bid proposal of Prometheus and Kimco and the proposal of Kramont. Later that morning, the special committee met at the offices of Kaye Scholer in New York. At this meeting, Mr. Eberle summarized his discussions with Kaye Scholer and Credit Suisse First Boston. Also at this meeting, Credit Suisse First Boston discussed with the special committee the Kramont bid and the Prometheus and Kimco bid.

Kaye Scholer also reviewed with the special committee the two bids, noting that there were a number of provisions in the revised draft merger agreement submitted by Prometheus and Kimco that would require substantial negotiations. These provisions included ones relating to the scope of the representations, warranties, and covenants; the restrictions on us if a superior offer later were made; the conduct of the majority stockholder if a superior offer were made; the extent of the closing conditions; and the amount of, and the timing of the payment of, termination expenses and break-up fees. There were also a number of areas in which the special committee needed to seek clarification. Kaye Scholer pointed out that the Kramont bid did not include a markup of the draft merger agreement that the special committee had sent to Kramont. It did include a summary of its proposal and a term sheet which outlined key business issues and specific and general items that it would require in an agreement. Kaye Scholer noted that, based on the term sheet, many of the same issues that were raised by the Prometheus and Kimco markup of the draft merger agreement would be raised in negotiations with Kramont. The special committee discussed the proposals at length, focusing on the amount and the nature of the consideration, the way in which the two proposals dealt with the contingent value rights, whether the proposals dealt with the Series A convertible preferred stock in a manner consistent with the charter, whether the proposals dealt with the OP Unit holders in a manner consistent with the limited partnership agreement, and the extent of due diligence required by each of the parties before they would be ready to sign an agreement. The special committee also discussed issues of exclusivity, break-up fees, and expenses. The Kramont proposal required Konover to enter into a period of exclusivity with Kramont. The special committee expressed concern that this would prematurely end the auction process. A number of questions raised by the special committee required further information from the bidders, which was sought. It was further agreed that the special committee would try to meet again by telephone conference call at 1:00 p.m. on May 23, to determine what progress had been made. The special committee concluded, after discussion with its advisors, that the bids were similar in terms of value to the minority common stockholders, assuming that the portion of the purchase price proposed by Kramont to be paid in Kramont stock traded within the range of the collar between signing and closing. It was the consensus of the special committee that the price being offered by each of the bidders was not adequate and the special committee determined to request that each bidder raise its offer.

On May 21, 2002, Kramont submitted a letter that alleged that the bid Prometheus and Kimco submitted was suspiciously similar in value to the bid Kramont submitted and implied that information about its proposal was leaked to Prometheus and Kimco. Kramont further questioned the fairness of the bidding process. That letter also argued that the Kramont proposal was superior to that of Prometheus and Kimco. The special committee asked Kaye Scholer to respond to the allegations in the Kramont letter, which Kaye Scholer did on May 23. The Kaye Scholer response denied that any information regarding the Kramont proposal had been shared with any other bidder and noted that a bidding process applicable to all bidders had been set up by the special committee. As part of that process, all bidders were asked to complete their due diligence and submit a marked up merger agreement with their bid. Kramont had chosen not to follow that process.

On May 21, 2002, at 3:00 p.m., at the direction of the special committee, a conference call was held with the special committee s advisors and Prometheus and Kimco to discuss certain major issues raised by the

Prometheus and Kimco bid. During this call, the parties discussed the rationale and mechanics for the OP Merger, the terms of the newly-proposed preferred stock, the scope of the representations and warranties, the nature of the closing conditions, the special committee s concern with the proposed limitations on our board s ability to respond to a superior proposal, and the relationship between Prometheus and Kimco. At the conclusion of this call, Prometheus and Kimco were told that the value of their bid was too low and would have to be increased for it to be further considered. In addition, the representatives of the special committee requested that Prometheus and Kimco provide the special committee with a copy of the (1) the proposed voting agreement, (2) the proposed form of charter and bylaws for the surviving corporation in the proposed merger, and (3) the proposed co-investment agreement, which would govern the relationship of Prometheus and Kimco during the period between signing the proposed merger agreement and closing the proposed merger.

On May 21, 2002, at 4:00 p.m., at the special committee s direction, a conference call was held with the special committee s advisors and Kramont to discuss certain major issues raised by the Kramont bid. During this call the parties discussed the collar, the percentage of cash and stock to be paid, the scope of the representations and warranties, and the nature of the closing conditions. Kramont again informed the special committee that it would not negotiate the draft merger agreement or complete its due diligence unless the special committee agreed to reimburse its expenses if it were not the successful bidder. At the conclusion of this call, Kramont was told that the value of its bid was too low and would have to be increased for it to be further considered.

On May 22, 2002, Prometheus and Kimco submitted a revised proposal to the special committee increasing its bid to $1.95 per share, in cash, for each outstanding share of our common stock. No other terms were changed. On May 23, 2002, the Prometheus Parties filed an amendment to their Schedule 13D reporting the offer set forth in the revised proposal.

On May 23, 2002, at 1:00 p.m., the special committee held a conference call meeting to discuss the clarifications that had been obtained with respect to the two bid proposals on May 21, 2002, and to discuss the revised Prometheus and Kimco bid. The special committee concluded that neither proposal was acceptable either in price or in the conditions requested. It determined to continue to negotiate the terms of the merger agreement with Prometheus and Kimco and inform them that the offered price was not sufficient. Also during this call, the special committee discussed whether it would be appropriate to agree to reimburse Kramont s expenses as required by Kramont in order to complete its due diligence and negotiate the merger agreement. It was the consensus of the special committee that Kramont s current proposal was not strong enough to justify making that expenditure. It was determined that Kramont should be instructed that if it was not willing to negotiate the terms of its proposal at this time, it should increase the value of its offer to exceed the publicly announced proposal from Prometheus and Kimco.

On May 24, 2002, Paul, Weiss, Rifkind, Wharton & Garrison, counsel to Prometheus, distributed to representatives of the special committee the most current drafts of the documents that had been requested on the May 21, 2002 conference call with Prometheus and Kimco.

On May 28, 2002, at 10:00 a.m., a meeting of our board of directors was held at the offices of Alston & Bird in New York. One of the issues discussed at the meeting was that the initial term of the special committee was set to expire on June 19, 2002. The board of directors determined that since the work of the special committee was ongoing, it would extend the term of the special committee until the earlier of the completion of a stockholder vote upon a proposed transaction or the termination of the special committee s responsibilities by the board of directors. The special committee then discussed the status of the bidding process with the members of the board of directors other than Messrs. Maloney, Ross, Ticotin, and Zobler, who were not present for the discussion. Representatives of Credit Suisse First Boston discussed with the board the current status of discussions with Prometheus and Kimco and Kramont. The consensus of the directors who were present was that the special committee, together with its advisors, should continue to move forward simultaneously with both bidders to try to firm up their bids and to get final and higher bids from both of them.

Table of Contents

On May 28, 2002, Prometheus, Kimco, and their respective legal advisors met with Mr. Eberle and the special committee s legal and financial advisors to negotiate the proposed merger agreement.

Beginning the week of May 27th and continuing through June 20th, Kaye Scholer and Alston & Bird negotiated with Prometheus and Kimco and its advisors regarding various issues in the merger agreement as submitted by Prometheus and Kimco on May 17th. The special committee s primary goals during these negotiations were to increase certainty of closure and to lessen the amount of and conditions requiring payment of a termination fee. Over the course of these negotiations, the special committee believed these goals were largely achieved through significant concessions by Prometheus and Kimco, including their agreement to:

- scale back the representations and warranties to avoid inadvertent breaches;
- relieve the burden on us of preparing the schedule of exceptions to the representations and negative covenants, called the target disclosure memorandum, which could delay completion of the agreement;
- loosen the operating covenants to preserve our ability to operate our business in our customary manner between signing and closing;
- revise the conditions to closing so that it would be highly unlikely that the transaction would fail to close;
- limit proposed restrictions on our board s of directors ability to respond to what it believed was a superior proposal made after the merger agreement was signed;
- have Prometheus, our majority stockholder, agree to vote in favor of a superior proposal if the proposal satisfied certain conditions; and
- limit the amount of and the conditions under which a termination fee and break-up expenses would be paid.

During the same period, Prometheus and Kimco continued to negotiate the economic and governance issues relating to their joint venture.

On May 31, 2002, Kramont submitted a letter increasing the consideration in its offer to a fixed ratio of 0.1375 Kramont shares (subject to a collar) for each outstanding share of our common stock; however, the value of the consideration was subject to the 30-day average price for Kramont common stock prior to closing and subject to significant assumptions and conditions. The proposal stated its value was equal to $1.99 per share of our common stock based on the closing price of Kramont s common stock on May 30, 2002. The cash portion of the consideration would be up to 75% of the total consideration based on certain assumptions relating to the Series A convertible preferred stock and OP Units, subject to a cash cap of $47.5 million. The proposal was conditioned on either (1) Prometheus and the special committee approving the proposal or (2) our agreement in writing to reimburse Kramont up to $250,000 for all expenses related to completing due diligence and negotiating an agreement. At this time Kramont did not submit a mark-up of the merger agreement nor had it completed its due diligence.

On June 3, 2002, at the direction of the special committee, Mr. Eberle, Kaye Scholer, and Credit Suisse First Boston held a conference call to discuss the most recent proposal from Kramont. During this call, the parties discussed a number of issues concerning Kramont s latest proposal. Among those issues were how long it would take Kramont to complete its due diligence and negotiate a merger agreement; whether Kramont would reduce its offer as a result of its due diligence; whether, based on the Kramont term sheet, Konover would be able to negotiate as favorable a merger agreement with Kramont as it believed it could negotiate with Prometheus and Kimco; whether Prometheus would accept that the contingent value rights would remain in place; whether the Kramont assumption that none of the Series A convertible preferred stockholders or OP Unit holders would convert their securities and seek to receive the merger consideration would hold true; and whether the price of Kramont stock, and thus the value of the offer, would decline between signing and closing. Mr. Eberle concluded

that if Kramont would increase its price and if the special committee could be comfortable that the price was firm, it would be worth pursuing the Kramont proposal. Given the small incremental difference in the price of the Kramont proposal compared to the Prometheus and Kimco proposal and the uncertainties of completing a transaction with Kramont, Mr. Eberle did not believe it was appropriate to agree to reimburse Kramont s expenses at this time. As a result of this call, Kramont was asked to address three issues: first, could Kramont s proposal include downside protection to our stockholders if the price of Kramont stock declined between signing and closing; second, could Kramont s proposal guarantee that 75% of the consideration be in cash without regard to a fixed-dollar cap; and third, how long did Kramont think it needed to complete its diligence.

On June 5, 2002, at 12:00 p.m., at the direction of the special committee, Mr. Eberle, with Mr. Kelly, Kaye Scholer, Alston & Bird, and Credit Suisse First Boston, met with Kramont and Kramont s legal and financial advisors to discuss a number of issues concerning Kramont s proposal, including the need for downside protection on the exchange ratio; the validity of certain assumptions upon which the proposal was specifically conditioned; narrowing the scope of the representations, warranties, covenants, and closing conditions; and reducing the amount of the break-up fee. Both sides also discussed the need to complete due diligence and negotiate the draft merger agreement. Kramont restated its position that it would not conduct any further due diligence or negotiate a merger agreement unless the special committee agreed to reimburse its expenses up to $250,000 if it were not the successful bidder. Kramont was informed that the special committee would consider reimbursing Kramont s expenses up to $250,000 if it modified its proposal to provide protection against a decline in the price of the Kramont stock and was the unsuccessful bidder, subject to two conditions first that Kramont be in a position to make a definitive offer by the next meeting of the Konover board of directors, then scheduled for June 19, and second, that a bid at that time be no lower than what it currently was. The special committee offered to provide any assistance it could in helping Kramont complete its due diligence. Kramont was reminded that almost all the relevant diligence materials were available for review (and had been for some months) on a secure internet site to which they had access and CD-ROMs forwarded to them. The special committee also offered to provide to Kramont certain parts of the merger agreement keyed to a nearly completed disclosure schedule to help speed its review. This draft merger agreement was delivered to Kramont on June 8, 2002. Kramont was also informed that the value of its existing proposal was not high enough, and Kramont would have to increase its bid if Kramont hoped to be the successful bidder. Kramont was also asked to submit a fixed-price bid to eliminate possible fluctuation in the value of the consideration.

On June 6, 2002, Prometheus, Kimco, and their respective legal advisors met with Mr. Eberle and the special committee s legal and financial advisors to discuss the status of the special committee s bidding process and to negotiate the outstanding issues on the proposed merger agreement noted on page 58 above and the related agreements.

On June 7, 2002, Kramont submitted a revised written proposal with a fixed value of $2.00 per share. Up to 75% of the consideration could be paid in cash with the aggregate cash consideration limit increased to $49.9 million. The $2.00 per share of Konover common stock payable in Kramont stock would be based on the average price of Kramont common stock for the 90-day period before closing, subject to a 10% collar based on the market price for Kramont s common stock at the time the merger agreement was executed. The proposal required our existing Series A convertible preferred stockholders to either convert into common stock or receive a new, substantially identical series of Kramont preferred stock, giving effect to the exchange ratio. It also required Prometheus to agree to vote for the merger and agree to the no-shop provision.

Between June 7, 2002 and June 13, 2002, at the direction of the special committee, Credit Suisse First Boston had telephone conversations with the representatives of Kramont requesting again that its proposal include protection against fluctuation in the price of the Kramont common stock. On June 13, 2002, Kramont submitted a revision to its proposal, reducing the pricing reference period used to determine the exchange ratio for the stock component of the consideration from 90 to 30 days prior to closing. The revised bid also replaced the 10% collar with a 10% floor, which would permit either party to terminate the proposed agreement if the price of Kramont common stock fell more than 10% from the date of the agreement. Along with its revised

proposal, Kramont submitted a letter to be signed by us agreeing to pay Kramont s fees and expenses, up to $250,000, incurred since March 28, 2002 in structuring and negotiating a transaction with us. The special committee asked Kaye Scholer to respond to this request by providing Kramont with a draft letter agreement that incorporated the conditions for expense reimbursement outlined in the June 5, 2002 meeting. Kaye Scholer sent Kramont that draft agreement on June 14, 2002.

On June 12, 2002, Konover distributed to Prometheus and Kimco a draft of our disclosure schedules for the proposed merger agreement. During the week of June 17, 2002, legal advisors to Prometheus and Kimco held telephonic discussions with our management and legal advisors regarding the disclosure schedules. During that week, we also distributed the disclosure schedules to Kramont.

During the period from June 10, 2002 to June 19, 2002, the legal advisors to each of Konover, the special committee, Prometheus, and Kimco had further discussions by telephone regarding the proposed merger agreement and related agreements.

On June 17, 2002, Kramont sent a letter to Kaye Scholer which (1) resubmitted its bid of June 13, 2002 and (2) rejected the expense reimbursement conditions set forth in the draft letter agreement Kaye Scholer sent on June 14, 2002.

On the evening of June 17, 2002, at the direction of the special committee, Mr. Eberle, Kaye Scholer, and Credit Suisse First Boston discussed (on a conference call) the advisability of changing the date for receiving final bids from 8:00 a.m. on June 19, to 5:00 p.m. on June 21. Among the reasons for the change were the likelihood that the special committee would not have finished negotiating the draft merger agreement, disclosure schedules, and related documents with Prometheus and Kimco; problems with the special committee members and directors schedules if the meetings were to run late on June 19; and Kramont s having more time to review the portions of the draft merger agreement previously sent to them and to conduct further due diligence. The special committee decided that the date should be pushed back to 5:00 p.m. on June 21 and notified Kramont and Prometheus and Kimco on the evening of June 17. The special committee scheduled a meeting for 11:00 a.m. on June 23 to discuss the bids and a meeting of the board of directors for 1:00 p.m. on June 23 to report to the full board of directors whether the special committee was willing to recommend one of the bids.

On June 18, 2002, Kaye Scholer and Alston & Bird continued negotiations with Prometheus and Kimco and their legal advisors, negotiating the appropriate matters for inclusion in the target disclosure memorandum and the remaining open issues on the merger agreement noted on page 58 above. Kaye Scholer updated Mr. Eberle and Credit Suisse First Boston on the status of those negotiations. A conference call was scheduled for the next day to determine the status of the Kramont bid.

On June 19, 2002, further negotiations were held between Kaye Scholer and Alston & Bird and Prometheus and Kimco and their legal advisors primarily regarding the appropriate matters for inclusion in the target disclosure memorandum, as well as the remaining open issues on the merger agreement noted on page 58 above. At the direction of the special committee, a conference call was also held with Kaye Scholer, Alston & Bird, Credit Suisse First Boston, and representatives of Kramont to determine whether there was any further information that could be provided to Kramont. During that call, Kaye Scholer offered to provide Kramont with a sanitized version of the merger agreement in the current state of negotiations with Prometheus and Kimco for its consideration. Kramont agreed that it would try to provide the special committee with drafts relating to the mechanics of its own bid. Kaye Scholer updated Mr. Eberle on the results of the call. Following the call, Kaye Scholer delivered to Kramont a draft merger agreement that mirrored the terms in the then current draft being negotiated with Prometheus and Kimco.

On June 20, 2002, Kaye Scholer and Alston & Bird continued negotiations with Prometheus and Kimco and their legal advisors primarily regarding the appropriate matters for inclusion in the target disclosure

Table of Contents

memorandum, as well as the remaining open issues on the merger agreement noted on page 58 above, and continued to review drafts of the merger agreement and the related agreements.

On June 21, 2002, by letter to the special committee, Prometheus and Kimco submitted their best and final offer to acquire us. In connection with their final proposal, Prometheus and Kimco delivered final execution copies of the merger agreement, the voting agreement, the supplemental voting and tender agreement, the co-investment agreement, a form of charter for the surviving corporation and other documents related to the signing of the merger agreement.

On June 21, 2002, Kramont did not increase its bid, but by letter reaffirmed the bid it had made on June 13, 2002. At this time, Kramont still had a significant amount of due diligence to complete and it had not submitted a mark-up of the merger agreement. Kramont also noted in its June 21, 2002 letter that the form merger agreement that it received, which mirrored the form merger agreement being negotiated with Prometheus and Kimco, seemed extreme in its allocation of risk to the buyer. Kramont indicated that it had a lower tolerance for those risks than the other bidder and stated its availability to discuss a transaction on, in its opinion, more commercially reasonable terms.

The special committee, Kaye Scholer, Credit Suisse First Boston, and Alston & Bird reviewed both proposals on June 21 and June 22, 2002.

On June 23, 2002, the special committee met at 11:00 a.m. to review the two bids. Credit Suisse First Boston reviewed its financial analysis of the cash consideration to be received in the merger with PSCO by holders of our common stock (other than PSCO and its affiliates) and rendered to the special committee its oral opinion, confirmed by delivery of a written opinion dated June 23, 2002, to the effect that, as of the date of the opinion and based on and subject to matters described in the opinion, such cash consideration was fair, from a financial point of view, to holders of our common stock (other than PSCO and its affiliates). Kaye Scholer discussed the substantive provisions of the merger agreement submitted by Prometheus and Kimco and compared the Prometheus and Kimco final proposal to the term sheet Kramont provided. Kaye Scholer discussed the proposed Prometheus and Kimco merger agreement and related agreements in detail with the special committee.

The special committee deliberated for some time and asked numerous questions as to various provisions of the Prometheus and Kimco proposal and the comparable provision, to the extent known, under Kramont s proposal. The special committee concluded that the Prometheus and Kimco proposal was clearly superior to the Kramont proposal based on its higher, all-cash offer price, completed due diligence and fully-negotiated transaction document. The Kramont proposal, on the other hand, consisted of a combination of cash and stock, which had a lower per share value than the Prometheus and Kimco proposal, required additional due diligence, and lacked definitive transaction documentation. However, the special committee did express some concern that there was a particular provision that the special committee had requested during negotiations and that was not part of the Prometheus and Kimco proposal. The provision pertained to the obligation of Prometheus as a majority stockholder to vote its shares in favor of a superior proposal if that proposal met certain conditions. The special committee believed those conditions were too narrow as proposed and determined to go back to Prometheus and Kimco and request again certain changes it had requested during the prior week s negotiations.

The special committee s representatives then informed Prometheus and Kimco that the special committee was prepared to recommend its final proposal if Prometheus and Kimco agreed to revise the definition of superior transaction in the supplemental voting and tender agreement to provide that (1) the consideration offered by a third party could consist of a combination of cash and the common stock of such bidder, as opposed to only cash, provided, however, that if the consideration included common stock of the bidder, Prometheus would have the right to elect to receive only cash in exchange for its shares, and (2) the timing of the closing of the third party transaction did not have to necessarily be the same as that of the merger. Prometheus and Kimco agreed in principle to the special committee s request, but indicated that they wanted their legal advisors to help draft acceptable language for the agreement. The special committee at that time determined to recommend to the

board of directors to accept the Prometheus and Kimco proposal and execute the merger agreement in the form submitted to the special committee and to the board of directors by Prometheus and Kimco subject to its final approval of the language reflecting the modifications to the supplemental voting and tender agreement discussed.

The full board of directors met for several hours immediately following the meeting of the special committee. Mr. Eberle indicated that the special committee was prepared to make a recommendation to the board of directors. At this time, Messrs. Ross, Ticotin, and Zobler, and their representatives, left the meeting. Mr. Eberle then conveyed the recommendation of the special committee, noting the modification needed to the supplemental voting and tender agreement. Kaye Scholer described the proposal from Kramont and the Prometheus and Kimco proposal. The board of directors discussed the two proposals and their effects on our stockholders and employees as well as their impact on the Operating Partnership s minority limited partners. Kaye Scholer and Alston & Bird described the merger agreement and the related agreements in detail. Mr. Konover reminded the board of directors of the tax protection arrangements he and his affiliates and partners made with us at the time of the sale to us of certain property in which he and his affiliates and partners had an interest. Mr. Konover also indicated that he intended to exercise his right to reclaim, as of the time of the proposed merger, the Konover trade name. The board of directors also noted that Messrs. Ross, Ticotin and Zobler are affiliated with the Prometheus Parties and that such affiliation created potential conflicts of interest because Prometheus is a stockholder of PSCO.

Following the description of the transaction terms, Credit Suisse First Boston discussed with the board its presentation at the special committee meeting earlier the same day of its financial analysis and the rendering of its opinion as to the fairness, from a financial point of view, of the consideration to be received in the merger by our common stockholders (other than PSCO and its affiliates). After the Credit Suisse First Boston discussion, Messrs, Ross, Ticotin, and Zobler (and their representatives) rejoined the meeting. At this point, the representatives of the parties and the board of directors discussed how the proposed changes to the agreement would be drafted. After reaching agreement on the required revisions, Mr. Eberle reported that the special committee recommended the approval of the merger with Prometheus and Kimco. The board of directors, including each member of the special committee, unanimously voted to approve the merger agreement and merger and recommend the transaction to our stockholders and to take all steps necessary to convene and hold a stockholders meeting to vote on the transaction.

On June 23, 2002, Konover and PSCO executed the merger agreement. In connection with the merger agreement, the parties also executed the voting agreement, the supplemental voting and tender agreement, and the co-investment agreement.

On June 24, 2002, the Prometheus Parties filed an amendment to their Schedule 13D, and we issued a press release, each of which announced the signing of the merger agreement.

On July 26, 2002, our board of directors adopted resolutions by unanimous written consent approving an amendment to the merger agreement. In the original merger agreement, the proposed charter of the surviving corporation contained certain amendments to our charter that required the affirmative vote of two-thirds of our outstanding common stock. Our board of directors determined it was advisable to provide for two alternate forms of charters in connection with the merger. The alternate forms of charter for the surviving corporation are attached as Exhibits B-1 and B-2 to the amendment no. 1 to the merger agreement. Exhibit B-2 will apply if holders of a majority but less than two-thirds of our outstanding common stock approve the merger proposal and the charter proposal, and Exhibit B-1 will apply if the merger proposal is approved and holders of two-thirds or more of our outstanding common stock approve the charter proposal. The alternate forms of charter, however, are substantially identical, other than those amendments requiring a two-thirds vote.

Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors

Reasons for the Recommendation of the Special Committee.

The special committee is composed of directors who are not officers or employees of Konover, Prometheus or Kimkon (or any of their affiliates) and who have no financial interest in the merger different from our stockholders generally. The special committee has unanimously determined that the merger, merger agreement, and charter amendments are advisable and in the best interests of Konover and are fair to Konover and our unaffiliated stockholders. The special committee unanimously approved the merger agreement, and the transactions contemplated by the merger agreement, including the merger and charter amendments, and recommended to the board of directors to approve the merger agreement, the merger, and the charter amendments. The special committee considered a number of factors, as more fully described above under Special Factors Background of the Merger and below under Factors Considered by the Special Committee, in making its recommendation.

Factors Considered by the Special Committee.

In making its determination that the merger agreement, merger and charter amendments were substantively fair to Konover and our unaffiliated stockholders and in recommending the approval of the merger agreement, merger, and charter amendments to the board of directors, the special committee considered a number of factors that it believed supported its determination as to fairness and its recommendation, the material ones of which including the following:

the efforts of the special committee, assisted by its financial advisor, commencing in June 2001 and continuing over the subsequent twelve months, to explore and pursue strategic alternatives for us, including continuing to operate as a stand-alone company;

that during a twelve-month period the special committee (through its financial advisor) had contact with at least 128 parties, entered into confidentiality agreements with 58 parties, received preliminary indications of interest from 21 parties concerning their possible interest in acquiring Konover or its assets, and received preliminary bids or proposals from numerous parties;

the $2.10 per share merger consideration is greater than that of the proposal from Kramont, the only other proposal received, and that the merger agreement with Prometheus and Kimco was fully negotiated and not subject to due diligence review, whereas the Kramont proposal was subject to negotiation of a merger agreement and further due diligence review that Kramont was not willing to continue unless it received reimbursement for its expenses if it was not the successful bidder;

the $2.10 per share merger consideration is higher than any price at which Konover s common stock had traded since September 2001 (Konover s outlet portfolio sale closed on September 25, 2001) and is substantially higher than Konover s lowest trading price ($1.15 per share in December 2001) during the period between September 2001 and June 23, 2002 (the date the signing of the merger agreement was announced); Konover s common stock price per share closed at $1.50 on October 1, 2001 and ranged from a low of $1.15 to a high of $1.90 from October 1, 2001 through March 13, 2002 (the last trading day prior to the public announcement of Prometheus first bid of $1.75 per share); the price per share ranged from a low of $1.61 to a high of $1.90 from March 14, 2002 through May 17, 2002 (the last trading day prior to the public announcement of Prometheus second bid of $1.90 per share); on June 21, 2002, the last trading day prior to the public announcement of the signing of the merger agreement, Konover s common stock closed at $1.86 per share;

the $2.10 per share merger consideration is substantially higher than the special committee s estimate of the price at which the market would value Konover if it remained an independent publicly-traded company, based on management s projections of future cash flows and a discounted cash flow analysis performed by Credit Suisse First Boston which the special committee adopted (See Special Factors Opinion of the Special Committee s Financial Advisor Discounted Cash Flow Analysis);

the $2.10 per share merger consideration is substantially higher than the special committee s estimate of the per share liquidation value of Konover s assets, based on management s estimation of fees and expenses to be incurred by Konover in connection with a liquidation and a net asset value liquidation analysis performed by Credit Suisse First Boston which the special committee adopted (See the second paragraph of Special Factors Opinion of the Special Committee s Financial Advisor Net Asset Valuation Analysis);

the $2.10 per share cash merger consideration that our common stockholders will receive in the merger is above or at the top of the implied per share equity reference ranges for Konover as set forth in the financial analyses of Credit Suisse First Boston which the special committee adopted, which ranges were (i) $1.00 to $1.50 in the case of the Selected Companies Analysis; (ii) $.70 to $1.00 in the case of the Precedent Transaction Analysis; (iii) $1.90 to $2.15 (on a fully diluted basis) and $1.20 to $1.50 (assuming an orderly liquidation of Konover) in the case of the Net Asset Value Analysis; and (iv) $1.00 to $1.50 in the case of the Discounted Cash Flow Analysis (See Special Factors Opinion of the Special Committee s Financial Advisor Selected Companies Analysis; Precedent Transaction Analysis; Net Asset Value Analysis; and Discounted Cash Flow Analysis);

that the merger agreement, after giving consideration to the requirements and limitations contained therein, allows us a reasonable opportunity to respond to certain third party alternative acquisition proposals, and, if a superior proposal were made, to terminate the merger agreement and accept the superior proposal up until the time of the stockholder vote on the merger, subject to certain limitations including the payment of a termination fee and expense reimbursement (See The Merger and Related Agreements Additional Agreements No Solicitation of Transactions and The Merger and Related Agreements Termination of the Merger Agreement);

that Prometheus s agreement to vote for a superior proposal (or tender in a tender offer representing a superior proposal) under certain conditions meant that if other strategic partners were willing to pay more for us than Prometheus and Kimco, the other party would have a reasonable chance to acquire us despite competing against an almost two-thirds shareholder;

that the percentage of the transaction value represented by the termination fee and reimbursement of out-of-pocket expenses payable, as discussed in The Merger and Related Agreements Termination of the Merger Agreement Termination Fee and Expense Reimbursement, would not unduly discourage superior third-party offers, and that the amount payable for reimbursement of expenses and the termination fee is within the range of fees and expenses in comparable transactions;

that Konover s management lacked permanence and, based on Konover s relatively small size and limited financial resources, it would have difficulty attracting and retaining qualified individuals to fill long-term management positions;

that the special committee was able to negotiate the purchase price up to $2.10 per share from the $1.75 per share initially offered by Prometheus;

that there was a publicly announced bid at $1.95 made on May 22, 2002 and that no party, other than Kramont, subsequently came forward with any offer or expression of interest at any price;

the financial presentation on June 23, 2002 of the special committee s financial advisor, Credit Suisse First Boston, including its opinion, addressed to the special committee and dated June 23, 2002, as to the fairness, from a financial point of view and as of the date of the opinion, of the cash consideration to be received in the merger by our common stockholders (other than PSCO and its affiliates) (See Opinion of the Special Committee s Financial Advisor);

that the negotiations with Prometheus and Kimco resulted in the elimination of numerous conditions and contingencies originally proposed by Prometheus and Kimco, including substantial revisions to the representations, warranties, covenants and closing conditions; substantial modifications to the limitations on the ability of our board of directors to consider superior proposals; Prometheus s

agreement to vote for a superior proposal if it met certain conditions; and a reduction in the payment of break up fees if the merger agreement is terminated under certain circumstances; and

that the consideration to be received by the holders of our Series A convertible preferred stockholders complies with what our charter provides they are entitled to receive in connection with a going private transaction and that these charter provisions were negotiated by Konover and the original purchasers of the Series A convertible preferred stock.

The special committee noted that the $2.10 per share merger consideration is substantially below the net book value of Konover s assets (Konover s net book value per share for the six months ended June 30, 2002 is $3.94 per share). Given the lengthy marketing process, the trading range of Konover s common stock over the prior nine-month period, and the financial analysis of Konover s value either if it continued as an independent publicly-traded company or if it were liquidated, the special committee did not believe the net book value of Konover s assets, recorded in accordance with generally accepted accounting principles which is generally based on the depreciated historical cost of operating assets, was an appropriate basis to analyze the fairness of the transaction. The special committee also noted that there had been no share purchases (other than transactions on the NYSE) for a number of years and did not believe this to be an appropriate basis to analyze the fairness of the transaction.

In addition, based on the material factors described below, even though the merger agreement is not structured to require the approval of at least a majority of our unaffiliated stockholders and even though a majority of our non-employee directors did not retain an unaffiliated representative to act solely on behalf of the unaffiliated stockholders, the special committee believes that the procedures involved in the negotiation of the merger, the merger agreement and the transaction overall were fair to our unaffiliated stockholders.

our board of directors established the special committee to consider and negotiate the merger agreement and make a recommendation to the board of directors;

the special committee, which consists solely of directors who are not officers or employees of us, Prometheus or Kimkon (or any of their affiliates) and who have no financial interest in the proposed merger different from our stockholders generally, was given exclusive authority to, among other things, evaluate, negotiate and recommend the terms of any proposed transactions;

members of the special committee will have no continuing interest in Konover after completion of the merger;

the special committee had independent legal and financial advisors; and

the $2.10 per share cash consideration and the other terms and conditions of the merger agreement resulted from arm s length bargaining between the special committee and its representatives, on the one hand, and Prometheus and Kimco and their representatives, on the other hand.

In making its determination that the merger agreement, the merger and charter amendments were substantively fair to Konover and our unaffiliated stockholders and in recommending the approval of the merger agreement, merger and charter amendments to the board of directors, the special committee also considered a variety of risks and other potentially negative factors concerning the merger but determined that these factors were outweighed by the benefits of the factors supporting the merger. These negative factors included the following:

certain terms and conditions set forth in the merger agreement, required by Prometheus and Kimco as a prerequisite to entering into the merger agreement, prohibit us and our representatives from soliciting third-party bids and from accepting third-party bids except in specified circumstances and upon reimbursement of expenses relating to the merger agreement and related transactions and payment to Prometheus and Kimco of a specified termination fee, and these terms could have the effect of discouraging a third party from making a bid to acquire Konover (See The Merger and Related

Agreements Additional Agreements No Solicitation of Transactions and The Merger and Related Agreements Termination of the Merger Agreement);

if the merger is not consummated, under circumstances further discussed in The Merger and Related Agreements Termination of the Merger Agreement we may be required to reimburse Prometheus and Kimco for expenses relating to the merger agreement and related transactions and to pay to Prometheus and Kimco the specified termination fee;

that Prometheus held more than a majority of our voting stock may have discouraged other parties from becoming bidders;

that the supplemental voting and tender agreement, which was meant to assist a bidder with a superior proposal to compete against an almost two-thirds stockholder, contains significant conditions to Prometheus s obligation to support the higher bid, including the condition that the bid enable Prometheus to elect all-cash consideration and that the contingent value rights obligation be extinguished in exchange for a cash payment equal to 4.5 million multiplied by the price per share of common stock in the higher bid even though the obligation does not become due until January 1, 2004 (See The Merger and Related Agreement Supplemental Voting and Tender Agreement);

the merger was not structured to require approval by a majority of our unaffiliated stockholders;

the potential conflicts of interest created by Messrs. Ross, Ticotin, and Zobler s affiliation with the Prometheus Parties and the expectation that they will remain directors of the surviving corporation. Messrs. Ross, Ticotin, and Zobler also likely will each hold at least one share of the surviving corporation s Series B redeemable preferred stock (See Interests of Directors and Officers in the Merger Interests of Prometheus Designated Directors);

following the merger, Konover will be a privately-held company, and our current common stockholders will cease to participate in any future earnings, losses, growth, or decline of Konover;

the merger may trigger adverse tax consequences for certain limited partners of the Operating Partnership; and

some alternative transactions may have been more favorable to our Series A convertible preferred stockholders, e.g., a sale of assets followed by a liquidation would have likely entitled our Series A convertible preferred stockholders to receive $25 per preferred share and a merger into another unaffiliated company may have entitled them to receive preferred stock in the surviving corporation with similar rights and preferences as they now have, including the possibility that they would eventually receive a $25 per share liquidation preference or that their convertible shares would appreciate significantly in value.

After considering these factors, the special committee concluded that, overall, the positive factors relating to the merger outweighed the negative factors. The determination of the special committee was made after consideration of all of the factors together. Because of the variety of factors considered, the special committee did not find it practicable to quantify or otherwise assign relative weights to, and did not make specific assessments of, the specific factors considered in reaching its determination. However, individual members of the special committee may have assigned different weights to various factors.

Reasons for the Recommendation of the Board of Directors.

Our board of directors consists of nine directors, three of whom served on the special committee. In reporting to the board of directors regarding its determination and recommendation, the special committee, with its legal and financial advisors participating, updated the other members of the board of directors of the course of its negotiations with Kramont and with Prometheus and Kimco, its review of the merger agreement proposed by Prometheus and Kimco, and the factors it took into account in reaching its determination that the terms of the

merger agreement, including the offer price of $2.10 per share of common stock, and the merger are advisable and in the best interests of Konover and fair to Konover and our unaffiliated stockholders. In view of the wide variety of factors considered in its evaluation of the proposed merger, the board of directors did not find it practicable to quantify or otherwise assign relative weights to, and did not make specific assessments of, the specific factors considered in reaching its determination. Rather, our board of directors based its position on the totality of the information presented and considered. The board of directors also noted the opinion of Credit Suisse First Boston delivered to the special committee as to the fairness, from a financial point of view, of the consideration to be received in the merger by our common stockholders (other than PSCO and its affiliates). See Special Factors Opinion of the Special Committee s Financial Advisor. In connection with its consideration of the recommendation of the special committee, as part of its determination with respect to the merger, the board of directors adopted the analysis of the special committee, based upon its view as to the reasonableness of that analysis. **Therefore, our board of directors, based on various factors, including the unanimous recommendation of the special committee, recommends that you vote For the approval of the merger proposal and the charter proposal.**

Fairness of the Merger to Our Unaffiliated Stockholders.

Each of Konover, the Operating Partnership and KPT Acquisition, L.P. believes that the merger agreement, the merger and the charter amendments are substantively and procedurally fair to Konover and its unaffiliated stockholders. Because Konover is the sole general partner of each of the Operating Partnership and KPT Acquisition, L.P., our board of directors made the determination as to substantive and procedural fairness described below on behalf of Konover, as well as the Operating Partnership and KPT Acquisition, L.P.

Our board of directors believes that the merger agreement, the merger and the charter amendments are advisable and in the best interests of Konover and fair to Konover and our unaffiliated stockholders for all of the reasons set forth above. In connection with its recommendation of approval of the merger proposal and the charter proposal to our stockholders and its determination that the merger is substantively fair to Konover and our unaffiliated stockholders, our board of directors considered the material factors considered by the special committee referred to above, including in particular the following material factors:

- the efforts of the special committee, assisted by its financial advisor, commencing in June 2001 and continuing over the subsequent twelve months, to explore and pursue strategic alternatives for Konover, including continuing to operate as a stand-alone company;

- that during a twelve-month period the special committee (through its financial advisor) had contact with at least 128 parties, entered into confidentiality agreements with 58 parties, received preliminary indications of interest from 21 parties concerning their possible interest in acquiring Konover or its assets, and received preliminary bids or proposals from numerous parties;

- that the $2.10 per share merger consideration is greater than that of the proposal from Kramont, the only other proposal received, and that the merger agreement with Prometheus and Kimco was fully negotiated and not subject to due diligence review, whereas the Kramont proposal was subject to negotiation of a merger agreement and further due diligence review which Kramont was not willing to continue, unless it received reimbursement for its expenses in the event it was not the successful bidder;

- the $2.10 per share merger consideration is higher than any price at which Konover s common stock had traded since September 2001 (Konover s outlet portfolio sale closed on September 25, 2001) and is substantially higher than Konover s lowest trading price ($1.15 per share in December 2001) during the period between September 2001 and June 23, 2002 (the date the signing of the merger agreement was announced); Konover s common stock price per share closed at $1.50 on October 1, 2001 and ranged from a low of $1.15 to a high of $1.90 from October 1, 2001 through March 13, 2002 (the last trading day prior to the public announcement of Prometheus first bid of $1.75 per share); the price per share ranged from a low of $1.61 to a high of $1.90 from March 14, 2002 through May 17, 2002 (the last

trading day prior to the public announcement of Prometheus second bid of $1.90 per share); on June 21, 2002, the last trading day prior to the public announcement of the signing of the merger agreement, Konover s common stock closed at $1.86 per share;

the special committee s determination that the $2.10 per share merger consideration is substantially higher than the special committee s estimate of the price at which the market would value Konover if it remained an independent publicly-traded company, based on management s projections of future cash flows and a discounted cash flow analysis performed by Credit Suisse First Boston which the special committee adopted (See Special Factors Opinion of the Special Committee s Financial Advisor Discounted Cash Flow Analysis);

the special committee s determination that the $2.10 per share merger consideration is substantially higher than the special committee s estimate of the per share liquidation value of Konover s assets, based on management s estimation of fees and expenses to be incurred by Konover in connection with a liquidation and a net asset value liquidation analysis performed by Credit Suisse First Boston which the special committee adopted (See the second paragraph of Special Factors Opinion of the Special Committee s Financial Advisor Net Asset Valuation Analysis);

the special committee s conclusion that Prometheus s agreement to vote for a superior proposal (or tender in a tender offer representing a superior proposal) under certain conditions meant that if other strategic partners were willing to pay more for Konover than Prometheus and Kimco, the other party would have a reasonable chance to acquire Konover despite competing against an almost two-thirds shareholder;

the special committee s determination that the $2.10 per share cash merger consideration that our common stockholders will receive in the merger is above or at the top of the implied per share equity reference ranges for Konover as set forth in the financial analyses of Credit Suisse First Boston which the special committee adopted, which ranges were (i) $1.00 to $1.50 in the case of the Selected Companies Analysis; (ii) $.70 to $1.00 in the case of the Precedent Transaction Analysis; (iii) $1.90 to $2.15 (on a fully diluted basis) and $1.20 to $1.50 (assuming an orderly liquidation of Konover) in the case of the Net Asset Value Analysis; and (iv) $1.00 to $1.50 in the case of the Discounted Cash Flow Analysis (See Special Factors Opinion of the Special Committee s Financial Advisor Selected Companies Analysis; Precedent Transaction Analysis; Net Asset Value Analysis; and Discounted Cash Flow Analysis);

that the special committee was able to negotiate the purchase price up to $2.10 per share from the $1.75 per share initially offered by Prometheus;

that there was a publicly announced bid at $1.95 made on May 22, 2002 and that no party, other than Kramont, subsequently came forward with any offer or expression of interest at any price;

that Konover s management lacked permanence and, based on Konover s relatively small size and limited financial resources, it would have difficulty attracting and retaining qualified individuals to fill long-term management positions;

that the $2.10 per share cash consideration and the other terms and conditions of the merger agreement resulted from arm s-length bargaining between the special committee and its advisors, on the one hand, and Prometheus and Kimco and their advisors, on the other hand;

the financial presentation on June 23, 2002 of the special committee s financial advisor, Credit Suisse First Boston, including its opinion, addressed to the special committee and dated June 23, 2002, as to the fairness, from a financial point of view and as of the date of the opinion, of the cash consideration to be received in the merger by our common stockholders (other than PSCO and its affiliates).

Table of Contents

The board of directors also considered the following factors in connection with its determination that the merger is substantively fair to Konover and our unaffiliated stockholders:

- the consideration to be received by the holders of our existing Series A convertible preferred stock was determined based upon our charter, which provides that, in the event of a going-private transaction, the holders of our existing Series A convertible preferred stock have the right to receive, at their election, either a continuing interest in the surviving corporation, or a cash payment in the amount equal to the product of (x) the number of shares of common stock issuable upon conversion of one share of existing Series A convertible preferred stock and (y) 105% of the per share common stock cash consideration offered to the common stockholders in such going-private transaction. The consideration to be received in the merger by our existing Series A convertible preferred stockholders complies with what our charter provides that they are entitled to receive in connection with a going-private transaction. The provisions in our current charter relating to the existing Series A convertible preferred stock were negotiated by Konover and the original purchasers of our Series A convertible preferred stock in arm s-length bargaining; and

- the special committee unanimously recommended approval of the merger, the merger agreement and the charter amendments to our board of directors.

In addition, our board of directors believes that the procedures involved in the negotiation of the merger, the merger agreement and the transaction overall were fair to our unaffiliated stockholders for all of the reasons and factors described below, even though the merger agreement was not structured to require the approval of at least a majority of our unaffiliated stockholders, and even though the majority of our non-employee directors have not retained an unaffiliated representative to act solely on behalf of the unaffiliated stockholders. With respect to procedural fairness:

- our board of directors established a special committee that consists of three directors who are not officers or employees of Konover, Prometheus, or Kimkon (or any of their affiliates) and who have no financial interest in the merger different from Konover stockholders generally, and no member will have a continuing interest in Konover after completion of the merger;

- the special committee was given the exclusive authority to, among other things, evaluate, negotiate and recommend the terms of any proposed transactions;

- the special committee had independent legal and financial advisors; and

- the special committee unanimously recommended approval of the merger, the merger agreement and the charter amendments to our board of directors.

After considering all of the factors, both positive and negative, our board of directors determined that the positive factors outweighed the negative and that the procedures were fair to our unaffiliated stockholders. The board of directors voted unanimously to approve the merger, merger agreement, and charter amendments.

The board of directors, based upon the above considerations, among others, including the unanimous recommendation of the special committee, recommends that you vote For the approval of the merger proposal and the charter proposal.

Opinion of the Special Committee s Financial Advisor.

Credit Suisse First Boston has acted as our exclusive financial advisor in connection with the merger. We selected Credit Suisse First Boston based on Credit Suisse First Boston s experience, expertise and reputation, and its familiarity with us and our business. Credit Suisse First Boston is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements, and valuations for corporate and other purposes.

Table of Contents

In connection with Credit Suisse First Boston s engagement, the special committee requested that Credit Suisse First Boston evaluate the fairness, from a financial point of view, to the holders of our common stock (other than PSCO and its affiliates) of the cash consideration to the common stockholders provided for in the merger. On June 23, 2002, at a meeting of the special committee held to evaluate the merger, Credit Suisse First Boston rendered to the special committee an oral opinion, which opinion was confirmed by delivery of a written opinion dated June 23, 2002, to the effect that, as of that date and based on and subject to the matters described in its opinion, the cash consideration per share of common stock to be received in the merger was fair, from a financial point of view, to the holders of our common stock (other than PSCO and its affiliates).

The full text of Credit Suisse First Boston s written opinion, dated June 23, 2002, to the special committee, which sets forth the procedures followed, assumptions made, matters considered, and limitations on the review undertaken, is attached as Appendix E and is incorporated into this proxy statement by reference. You are encouraged to read this opinion carefully in its entirety. Credit Suisse First Boston s opinion is addressed to the special committee and relates only to the fairness, from a financial point of view, of the cash consideration to be received in the merger, does not address any other aspect of the proposed merger, and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the merger. The summary of Credit Suisse First Boston s opinion in this proxy statement is qualified in its entirety by reference to the full text of the opinion.

A copy of Credit Suisse First Boston s written presentation to the special committee has been attached as an exhibit to the Schedule 13E-3 filed with the Securities and Exchange Commission in connection with the merger. The written presentation will be available for any interested Konover stockholder (or any representative of the stockholder who has been so designated in writing) to inspect and copy at our principal executive offices during regular business hours. Alternatively, you may inspect and copy the presentation at the office of, or obtain it by mail from, the Securities and Exchange Commission.

In arriving at its opinion, Credit Suisse First Boston reviewed the merger agreement and publicly available business and financial information relating to us. Credit Suisse First Boston also reviewed other information, including financial forecasts, that we provided to or discussed with Credit Suisse First Boston and met with our management to discuss our business and prospects. Credit Suisse First Boston also considered financial and stock market data of Konover and compared those data with similar data for other publicly held companies in businesses similar to ours. Credit Suisse First Boston also considered, to the extent publicly available, the financial terms of other business combinations and other transactions which have been effected. Credit Suisse First Boston also considered other information, financial studies, analyses, and investigations, and financial, economic and market criteria that Credit Suisse First Boston deemed relevant.

In connection with its review, Credit Suisse First Boston did not assume any responsibility for independent verification of any of the information provided to or otherwise reviewed by it and relied on that information being complete and accurate in all material respects. With respect to the financial forecasts, Credit Suisse First Boston was advised, and assumed, that the financial forecasts were reasonably prepared on bases reflecting the best currently available estimates and judgments of our management as to our future financial performance. Credit Suisse First Boston assumed, with our consent, that the merger and related transactions will be consummated in accordance with the terms of the merger agreement and related documents without waiver, amendment, or modification of any material term. In addition, Credit Suisse First Boston was not requested to make, and did not make, an independent evaluation or appraisal of our assets or liabilities, contingent or otherwise, nor, with the exception of various third party appraisals we provided to Credit Suisse First Boston, was Credit Suisse First Boston furnished with any independent evaluations or appraisals.

Credit Suisse First Boston s opinion was necessarily based on information available to it, and financial, economic, market, and other conditions as they existed and could be evaluated, on the date of its opinion. Although Credit Suisse First Boston evaluated the cash consideration per share to be received in the merger by

our common stockholders from a financial point of view, Credit Suisse First Boston was not requested to, and did not, recommend the specific consideration to be received in the merger, which consideration was determined between the special committee and our board of directors, on the one hand, and Prometheus and Kimco, on the other hand. In connection with its engagement, Credit Suisse First Boston was requested to solicit third party indications of interest in the possible acquisition of Konover and held preliminary discussions with a number of these parties prior to the date of its opinion. Credit Suisse First Boston s opinion did not address the relative merits of the merger as compared to other transactions and strategies that might have been available to us or our underlying business decision to engage in the merger. No other limitations were imposed on Credit Suisse First Boston with respect to the investigations made or procedures followed by Credit Suisse First Boston in rendering its opinion.

In preparing its opinion to the special committee, Credit Suisse First Boston performed a variety of financial and comparative analyses, including those described below. The summary of Credit Suisse First Boston s analyses described below is not a complete description of the analyses underlying its opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and therefore, a fairness opinion is not readily susceptible to summary description. In arriving at its opinion, Credit Suisse First Boston made qualitative judgments as to the significance and relevance of each analysis and factor that it considered. Accordingly, Credit Suisse First Boston believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, Credit Suisse First Boston considered industry performance, general business, economic, market, and financial conditions, and other matters, many of which are beyond the control of Konover. No company, transaction, or business used in Credit Suisse First Boston s analyses as a comparison is identical to us or the proposed merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading, or other values of the companies, business segments, or transactions analyzed. The estimates contained in Credit Suisse First Boston s analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, Credit Suisse First Boston s analyses and estimates are inherently subject to substantial uncertainty.

Credit Suisse First Boston s opinion and financial analyses were only one of many factors the special committee and our board of directors considered in their evaluation of the merger and should not be viewed as determinative of the views of the special committee, our board of directors, or our management with respect to the merger or the consideration provided for in the merger agreement.

The following is a summary of the material financial analyses, each of which is a valuation methodology customarily undertaken in transactions of this type, underlying Credit Suisse First Boston s opinion delivered to the special committee in connection with the merger. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Credit Suisse First Boston s financial analyses, 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. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Credit Suisse First Boston s financial analyses.**

Selected Companies Analysis.

Credit Suisse First Boston reviewed financial, operating, and stock market data of the following seven publicly traded REITs in the community shopping center industry, which operate in markets and/or have businesses and holdings similar to those of Konover:

Community Shopping Center REITs
Acadia Realty Trust
Equity One, Inc.
IRT Property Company
JDN Realty Corporation
Kramont Realty Trust
Mid Atlantic Realty Trust
Ramco-Gershenson Properties Trust

Credit Suisse First Boston reviewed adjusted enterprise values, calculated as total capitalization less land held for development, construction in progress, joint venture equity interests, mortgages receivable, and cash, as a multiple of last quarter annualized earnings before interest, taxes, depreciation and amortization, commonly known as EBITDA. Credit Suisse First Boston also reviewed equity values as a multiple of estimated calendar years 2002 and 2003 funds from operations. Estimated data for us were based on internal estimates of our management. Estimated data for the seven selected companies were based on publicly available filings and research analysts estimates. All multiples were based on closing stock prices on June 21, 2002. Credit Suisse First Boston applied a range of selected multiples derived from the selected companies, in the case of last quarter annualized EBITDA from 11.0x to 12.0x, and in the case of calendar years 2002 and 2003 funds from operations from 9.0x to 10.0x and 8.5x to 9.5x, respectively, to corresponding financial data of Konover, in the case of EBITDA, assuming the sale of Mt. Pleasant. After taking into account the results of this analysis, Credit Suisse First Boston derived the following implied per share equity reference range for Konover, on a fully diluted basis and assuming the issuance of 4.5 million shares of Konover common stock pursuant to the contingent value right agreement as compared to the cash consideration per share to be received by our common stockholders in the merger:

Implied Per Share Equity Reference Range for Konover	Cash Consideration Per Share of Common Stock in the Merger
$1.00 $1.50	$2.10

Table of Contents

Precedent Transactions Analysis.

Credit Suisse First Boston reviewed the purchase prices, aggregate transaction values and implied transaction multiples in the following seven selected merger and acquisition transactions in the community shopping center REIT industry in 2000 and 2001, which transactions involved companies with businesses and holdings similar to those of Konover:

Acquiror	Target
Equity One, Inc.	Centrefund Realty Corporation
Equity One, Inc.	United Investors Realty Trust
Weingarten Realty Investors	Burnham Pacific Properties, Inc.
US Retail Partners, LLC	First Washington Realty Trust, Inc.
Pan Pacific Retail Properties, Inc.	Western Properties Trust
Heritage Property Investment Trust	Bradley Real Estate, Inc.
CV REIT, Inc.	Kranzco Realty Trust

Credit Suisse First Boston compared enterprise values in the selected transactions as a multiple of last quarter annualized EBITDA and equity values as multiples of latest 12 months and one year forward funds from operations. Estimated financial data for us were based on internal estimates our management provided. All multiples for the selected transactions were based on publicly available information at the time of announcement of the relevant transaction. Credit Suisse First Boston applied a range of selected multiples derived from the selected transactions, in the case of last quarter annualized EBITDA from 9.5x to 10.5x, and in the case of latest 12 months and one year forward funds from operations from 8.5x to 9.5x and 8.0x to 9.0x, respectively, to corresponding data of our last quarter annualized EBITDA, annualized last quarter funds from operations, and one year forward funds from operations. After taking into account the results of this analysis, Credit Suisse First Boston derived the following implied per share equity reference range for Konover, on a fully diluted basis and assuming the issuance pursuant to the contingent value right agreement, as compared to the cash consideration per share to be received by our common stockholders in the merger:

Implied Per Share Equity Reference Range for Konover	Cash Consideration Per Share of Common Stock in the Merger
$0.70 $1.00	$2.10

Net Asset Valuation Analysis.

Credit Suisse First Boston performed a net asset valuation analysis of our assets, after adjusting the balance sheet based on discussions with our management, by adding the estimated gross value of our assets and subtracting our estimated outstanding liabilities and the estimated costs associated with the sale of Konover. Estimated financial data for us were based on public filings discussed with our management. Estimated aggregate net asset values ranging from $70.288 million to $91.776 million were derived by capitalizing the annualized last quarter net operating income attributable to our community shopping centers utilizing capitalization rates ranging from 10.25% to 11.25%. After taking into account the results of this analysis, Credit Suisse First Boston derived the following implied per share equity reference range for Konover, on a fully diluted basis and assuming the issuance pursuant to the contingent value right agreement, as compared to the cash consideration per share to be received by our common stockholders in the merger:

Implied Per Share Equity Reference Range for Konover	Cash Consideration Per Share of Common Stock in the Merger
$1.90 $2.15	$2.10

Credit Suisse First Boston then estimated the potential aggregate net proceeds available for distribution upon an orderly liquidation of Konover, ranging from $40.208 million to $61.696 million, by subtracting the costs associated with a liquidation from the balance sheet data utilized above. After taking into account the results of this analysis, Credit Suisse First Boston derived the following implied per share equity reference range for Konover, assuming the issuance pursuant to the contingent value right agreement and liquidation of all outstanding shares of our Series A convertible preferred stock at a per share cost of $25.00 in cash, as compared to the cash consideration per share to be received by our common stockholders in the merger:

Implied Per Share Equity Reference Range for Konover	Cash Consideration Per Share of Common Stock in the Merger
$1.20 $1.50	$2.10

Discounted Cash Flow Analysis.

Credit Suisse First Boston calculated the estimated present value of the standalone, unlevered, after-tax free cash flows that Konover could produce for calendar years 2002 to 2006, which aggregate cash flows equaled approximately $85.431 million. Estimated financial data for us were based on our management s internal estimates. Credit Suisse First Boston calculated a range of estimated terminal values for Konover, from $156.839 million to $188.206 million, by applying a range of terminal EBITDA multiples of 10.0x to 12.0x to our calendar year 2006 estimated EBITDA. The estimated free cash flows and terminal values for Konover were then discounted to present value using discount rates ranging from 9.0% to 11.0%. Credit Suisse First Boston then subtracted Konover s estimated net debt, including joint venture debt of $21.6 million, from, and added excess cash to, the aggregate discounted cash flow range. After taking into account the results of this analysis, Credit Suisse First Boston derived the following implied per share equity reference range for Konover, assuming the issuance pursuant to the contingent value right agreement, as compared to the cash consideration per share to be received by our common stockholders in the merger:

Implied Per Share Equity Reference Range for Konover	Cash Consideration Per Share of Common Stock in the Merger
$1.00 $1.50	$2.10

Miscellaneous.

We have agreed to pay Credit Suisse First Boston for its financial advisory services upon consummation of the merger an aggregate fee equal to 0.70% of the transaction value, which fee is currently estimated to be approximately $2.1 million, of which Credit Suisse First Boston has received $600,000 and against which a credit of approximately $359,000 will be applied. We also have agreed to reimburse Credit Suisse First Boston for its reasonable out-of-pocket expenses, including fees and expenses of legal counsel and any other advisor retained by Credit Suisse First Boston, and to indemnify Credit Suisse First Boston and related parties against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Credit Suisse First Boston has in the past provided investment banking and financial services to Konover unrelated to the proposed merger, for which services rendered over the past two years it has received fees of approximately $1.4 million. Credit Suisse First Boston also in the past has provided, and in the future may provide, investment banking and financial services to certain affiliates of Prometheus unrelated to the proposed merger, for which services it has received, and expects to receive, compensation. In the ordinary course of business, Credit Suisse First Boston and its affiliates may actively trade or hold the securities of Konover, Kimco and certain affiliates of Prometheus for their own and their affiliates accounts and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Table of Contents

PSCO s and the Prometheus Parties Position as to the Fairness of the Merger.

The rules of the Securities and Exchange Commission require PSCO and the Prometheus Parties to express their belief as to the fairness of the merger to Konover s unaffiliated stockholders.

Each of PSCO and the Prometheus Parties has considered the factors considered by the special committee and the board of directors, referred to above under Special Factors Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors, and although neither PSCO nor the Prometheus Parties participated in the deliberations of the special committee or received advice from the special committee s advisors, and even though PSCO and the Prometheus Parties had more limited facts and information available to them, PSCO and the Prometheus Parties adopted the analyses of the special committee and the board of directors that the merger is fair to Konover s unaffiliated stockholders. Each of PSCO and the Prometheus Parties believes that the merger is substantively and procedurally fair to Konover s unaffiliated stockholders. Based on the factors considered by the special committee and the board of directors, including in particular the following material factors, each of PSCO and the Prometheus Parties believes that the merger is substantively fair to Konover s unaffiliated stockholders:

the efforts of the special committee, assisted by its financial advisor, commencing in June 2001 and continuing over the subsequent twelve months, to explore and pursue strategic alternatives for Konover, including continuing to operate as a stand-alone company;

that during a twelve-month period the special committee (through its financial advisor) had contact with at least 128 parties, entered into confidentiality agreements with 58 parties, received preliminary indications of interest from 21 parties concerning their interest in acquiring Konover or its assets, and received preliminary bids or proposals from numerous parties;

that the $2.10 per share merger consideration is greater than that of the proposal from Kramont, the next best proposal received, and that the merger agreement with Prometheus and Kimkon was fully negotiated and not subject to due diligence review, whereas the Kramont proposal was subject to negotiation of a merger agreement and further due diligence review which Kramont was not willing to continue, unless it received reimbursement for its expenses in the event it was not the successful bidder;

the $2.10 per share merger consideration is higher than any price at which Konover s common stock had traded since September 2001 (Konover s outlet portfolio sale closed on September 25, 2001) and is substantially higher than Konover s lowest trading price ($1.15 per share in December 2001) during the period between September 2001 and June 23, 2002 (the date the signing of the merger agreement was announced); Konover s common stock price per share closed at $1.50 on October 1, 2001 and ranged from a low of $1.15 to a high of $1.90 from October 1, 2001 through March 13, 2002 (the last trading day prior to the public announcement of Prometheus first bid of $1.75 per share); the price per share ranged from a low of $1.61 to a high of $1.90 from March 14, 2002 through May 17, 2002 (the last trading day prior to the public announcement of Prometheus second bid of $1.90 per share); on June 21, 2002, the last trading day prior to the public announcement of the signing of the merger agreement, Konover s common stock closed at $1.86 per share;

the fact that Prometheus s agreement to vote for a superior proposal (or tender in a tender offer representing a superior proposal) under certain conditions meant that if other strategic partners were willing to pay more for Konover than Prometheus and Kimco, the other party would have a reasonable chance to acquire Konover despite competing against an almost two-thirds shareholder;

that the special committee was able to negotiate the purchase price up to $2.10 per share from the $1.75 per share initially offered by Prometheus;

that there was a publicly announced bid at $1.95 made on May 22, 2002, and that no party, other than Kramont, subsequently came forward with any offer or expression of interest at any price; and

Table of Contents

that the special committee s negotiations with Prometheus and Kimco resulted in the elimination of numerous conditions and contingencies originally proposed by Prometheus and Kimco, including substantial revisions to the representations, warranties, covenants, and closing conditions; substantial modifications to the limitations on the ability of the board of directors to consider superior proposals; the agreement of Prometheus to vote for a superior proposal if it met certain conditions; and a reduction in the payment of break up fees if the merger agreement is terminated in certain circumstances.

In addition to the factors considered by the special committee and board of directors described above, PSCO and the Prometheus Parties considered the following to be material factors in determining the substantive fairness of the merger to Konover s unaffiliated stockholders:

the fact that Prometheus is selling 4,436,709 shares of common stock (or approximately 17% of its investment in Konover assuming the issuance of 4.5 million shares of common stock to Prometheus under the contingent value right agreement) in the transaction at the $2.10 per share merger consideration, reducing its ownership interest in Konover from approximately 64% (on a fully diluted basis assuming issuance of 4.5 million shares under the contingent value right agreement and conversion into common stock of outstanding Series A convertible preferred stock and OP Units and the exercise of in-the-money options) to approximately 55.5% after the transaction; and

the $2.10 per share merger consideration is at the top of the range of values implied for Konover based on estimates by PSCO and the Prometheus Parties of the net asset value of Konover s assets, with net asset value being determined by subtracting out the value of estimated liabilities from the estimated gross value of Konover s assets.

PSCO and the Prometheus Parties did not consider the net book value of Konover s assets to be a material factor in evaluating the fairness of the transaction because of their belief that net book value is not the appropriate measure for establishing the current fair market value of Konover s common stock. The net book value of Konover s assets is recorded in accordance with generally accepted accounting principles. Since net book value as determined in accordance with generally accepted accounting principles is based on the depreciated historical cost of Konover s operating assets, PSCO and the Prometheus Parties do not believe that net book value necessarily reflects the current fair market value of Konover s operating assets. However, PSCO and the Prometheus Parties concluded that the $2.10 per share merger consideration exceeded their estimate of the per share liquidation value of Konover s assets as well as their estimate of the price at which the market would value Konover if it remained an independent publicly-traded company.

PSCO is a newly formed entity and it has never owned Konover common stock. Neither PSCO nor the Prometheus Parties considered the purchase prices paid by the Prometheus Parties in connection with purchases of Konover common stock by the Prometheus Parties during the past two years as a factor in their evaluation of the fairness of the merger to Konover s unaffiliated stockholders, because no purchases of such kind were made during the past two years.

Based on the following material factors, each of PSCO and the Prometheus Parties believes that the procedures used by the special committee in negotiating the merger agreement and the merger were fair to the unaffiliated stockholders of Konover:

The board of directors formed the special committee, which consists solely of directors who are not officers or employees of Konover, Prometheus, or Kimkon (or any of their affiliates) and who have no financial interest in the proposed merger different from Konover s unaffiliated stockholders. The special committee retained its own financial and legal advisors. The special committee conducted a vigorous evaluation and negotiation of the merger agreement. Negotiations were considered to be an important element of a fair bargaining process, and the fact that there were effective negotiations in this case indicated that the process leading to the execution of the merger agreement was fair.

The special committee was given exclusive authority to, among other things, consider, negotiate and evaluate the terms of any proposed transaction, including the merger and to make a recommendation to the board of directors.

The $2.10 per share cash merger consideration to be received by the common stockholders in the merger and the other terms and conditions of the merger agreement resulted from active arm s length bargaining between the special committee and its advisors, on the one hand, and the Prometheus Parties and Kimco and their respective advisors, on the other hand.

The special committee s financial and legal advisors reported directly to the special committee and took direction exclusively from the special committee.

The special committee unanimously determined that the merger agreement and the merger and charter amendments contemplated by the merger agreement are advisable and in the best interests of Konover and fair to Konover and its unaffiliated stockholders and unanimously recommended to the board of directors that the merger agreement, merger, and charter amendments be approved.

Following its receipt of the special committee s recommendation, the board of directors unanimously determined that the merger agreement and the merger and charter amendments contemplated by the merger agreement are advisable and in the best interests of Konover and fair to Konover and its unaffiliated stockholders and unanimously recommended that the common stockholders of Konover vote to approve the merger proposal and the charter proposal.

At all times, the special committee and the board of directors were aware of the potential conflicts of interest created by the affiliation of Messrs. Ross, Ticotin, and Zobler with the Prometheus Parties.

At the June 23, 2002 board of directors meeting, the non-Prometheus designated directors had the opportunity to discuss, without the participation of Messrs. Ross, Ticotin, and Zobler, the merger proposal and the charter proposal.

Although the merger was not structured to require approval of at least a majority of unaffiliated stockholders, and even though the majority of Konover s non-employee directors have not retained an unaffiliated representative to act solely on behalf of the unaffiliated stockholders, based on all the material factors described above, each of PSCO and the Prometheus Parties believes that the merger is procedurally fair to Konover s unaffiliated stockholders.

Each of PSCO and the Prometheus Parties believes that the analyses and factors discussed above provided a reasonable basis upon which it formed its belief that the merger is fair to Konover s unaffiliated stockholders. Each of PSCO and the Prometheus Parties did not find it practicable to, and did not attempt to, quantify, rank or otherwise assign relative weights to the specific analyses and factors they considered in forming their belief, and such belief should not be construed as a recommendation by PSCO or the Prometheus Parties to Konover s unaffiliated stockholders to vote to approve the merger proposal and the charter proposal.

Neither PSCO nor any of the Prometheus Parties relied on any report, opinion, or appraisal in determining the fairness of the transaction to Konover s unaffiliated stockholders. The opinion of Credit Suisse First Boston described under the caption Opinion of the Special Committee s Financial Advisor, as to the fairness of the consideration to be received from a financial point of view to the holders of Konover common stock, other than PSCO and its affiliates, was delivered only to the special committee.

Table of Contents

Since Konover s charter requires that in the event of a going private transaction, the holders of existing Series A convertible preferred stock must have the right to receive, at their election, either of two forms of consideration, one of which is a cash payment in the amount equal to the product of (x) the number of shares of common stock issuable upon conversion of one share of existing Series A convertible preferred stock and (y) 105% of the per share common stock cash consideration offered to the common stockholders in such going-private transaction, PSCO and the Prometheus Parties did not separate out the existing Series A convertible preferred stockholders from their consideration of the fairness of the merger to Konover s unaffiliated stockholders.

Vote Required to Approve the Merger Proposal and the Charter Proposal.

The affirmative vote of the holders of a majority of the outstanding shares of our common stock on the record date is required to approve the merger proposal and the charter proposal, except for those charter amendments principally relating to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock. Those latter charter amendments require the affirmative vote of holders of two-thirds of the outstanding shares of our common stock. Approval of the charter amendments, other than the charter amendments requiring a two-thirds vote, is a condition to completing the merger. In connection with the execution of the merger agreement, Prometheus entered into a voting agreement with us and Kimkon, which obligates Prometheus to vote in favor of the merger proposal and the charter proposal. Since Prometheus owns approximately 66% of our outstanding common stock, if Prometheus votes in favor of the proposals, the merger agreement, merger, and charter amendments not requiring a two-thirds vote will be approved. See The Merger and Related Agreements Voting Agreement.

Interests of Directors and Officers in the Merger.

In considering the recommendation of the special committee and our board of directors, you should be aware that some of our directors and members of our management team may have interests in the merger that are different from, or in addition to, yours. Those interests may create potential conflicts of interest. Each of the members of the special committee and the board of directors was aware of these interests and considered them, among other factors, in recommending approval of and in approving the merger proposal and the charter proposal. The board of directors appointed the special committee, consisting solely of directors who are not officers or employees of Konover and who have no financial interest in the merger different from our stockholders generally. The special committee evaluated and negotiated the merger agreement and evaluated whether the merger is advisable and in the best interests of Konover and fair to Konover and our unaffiliated stockholders. Members of the special committee received additional compensation for their services on that committee, but no compensation was based on or contingent on any proposed transaction being entered into or being completed. These interests are summarized below.

Table of Contents

Share Ownership.

On the record date, Prometheus owned approximately 66% of our common stock. In connection with the execution of the merger agreement, Prometheus entered into a voting agreement obligating it to vote **For** approval of the merger proposal and the charter proposal. Our board of directors and executive officers and their affiliates, excluding Prometheus and our director Mark S. Ticotin, who is a director of PSCO and a Managing Principal of LFREI, the general partner of the LFSRI II Funds, the investment funds which control Prometheus, together owned less than 40,000 shares of our common stock (including approximately 31,000 shares of our common stock issuable upon redemption of OP Units in the Operating Partnership held by our director Simon Konover and his affiliate), or less than one percent, of our outstanding common stock on the record date. Under SEC rules, as a result of his position with LFREI, Mr. Ticotin is deemed to beneficially own 66% of our outstanding shares of common stock. Including Prometheus and Mr. Ticotin, the board of directors and executive officers and each of their affiliates owned approximately 66% of our outstanding common stock on the record date. The directors and executive officers have confirmed to us their intention to vote their shares in favor of approving the merger proposal and the charter proposal. The following table sets forth, for each of our current directors and executive officers (including Robin W. Malphrus, who was an executive officer on the record date but who no longer is an executive officer of Konover):

- the number of shares of our common stock or OP Units directly owned or owned by entities owned by such person;
- the number of options with exercise prices below $2.10, whether already vested or that will become vested as a result of the merger; and
- the aggregate payments that are anticipated to be made in connection with such ownership when the merger is completed (excluding any amounts in respect of tax indemnification payments to which any such person may be entitled).

Name	Position	No. shares common stock or OP Units	No. in-the-money options	Aggregate payment
Daniel J. Kelly	Executive Vice President, Chief Financial Officer		71,109	$ 118,211
Robin W. Malphrus	Senior Vice President, General Counsel, Secretary(1)	2,003	38,899	$ 62,145
William D. Eberle	Director	7,095		$ 14,900
Carol R. Goldberg	Director			
Simon Konover	Director	30,897		$ 64,884
J. Michael Maloney	President and Chief Executive Officer, Director			
L. Glenn Orr, Jr.	Director			
Robert A. Ross	Director			
Philip A. Schonberger	Director			
Mark S. Ticotin	Director			
Andrew E. Zobler	Director			

(1) Ms. Malphrus employment with Konover was terminated effective September 30, 2002.

Employment and Severance Arrangements.

During the two years preceding the date of the merger agreement, we entered into several employment agreements or severance agreements with key employees and officers. Pursuant to these agreements, the employee or officer will receive a severance package upon the happening of specified events. For example, if these individuals are terminated in connection with the merger, they will receive payments under their agreements. Such severance packages typically include a lump sum payment of a base amount (usually related to salary), a lump sum payment of the cash equivalent of COBRA premiums for a specified period under our health and dental plans, and outplacement services. The amount of the severance payments for key employees and officers varies based upon the person s position with us, but all of the severance packages provide benefits ranging from $47,000 to $528,000. The severance agreements of our executive officers provide benefits ranging from $139,000 to $528,000 and cumulatively total approximately $868,000. None of the directors (other than Mr. Maloney, who is also an executive officer) have severance agreements or arrangements.

Options.

The merger agreement provides that options that have exercise prices at or above $2.10 per share will be canceled at the effective time of the merger without further consideration. Those that have exercise prices below $2.10 will entitle the holders of the options to receive in the merger a cash payment in an amount equal to the difference between the exercise price and $2.10 multiplied by the number of shares for which the option is exercisable. The aggregate payments due under these options is approximately $678,000. This amount includes payment for unvested options, the vesting of which will accelerate as a result of the merger. As of September 23, 2002, our executive officers collectively held 110,008 options with exercise prices below $2.10 per share, which will result in an aggregate payment to these individuals of approximately $176,000. These payments are reflected in the share ownership table above. None of our directors hold options with exercise prices below $2.10 per share. See The Merger and Related Agreements Treatment of Stock Options, Purchase Rights, Repurchase Rights, and Warrants.

Restricted Stock.

Pursuant to the merger agreement, all unvested restricted stock will become vested upon the closing of the merger. As a result of this vesting acceleration, we expect an additional 14,722 shares of restricted stock to vest, resulting in an additional payment of $31,000. However, none of the shares of restricted stock subject to acceleration are held by our directors or executive officers.

Indemnification of Konover Officers and Directors.

The merger agreement provides that the surviving corporation will indemnify each present and former director, officer, employee, and agent of Konover and our subsidiaries against any costs, expenses, or liabilities arising out of actions or omissions relating to the person s service to, or at the direction of, Konover. This indemnification will be to the fullest extent permitted or required under Maryland law and by Konover s charter and bylaws as in effect on the date of the merger agreement. This indemnification obligation will continue for a period of six years following the consummation of the merger. Additionally, the surviving corporation will assume Konover s indemnification obligations under currently existing indemnification agreements with our directors and certain officers.

Table of Contents

Interests of Prometheus Designated Directors.

In connection with LFREI s investment in Konover, Prometheus (as assignee of PSLLC) and Konover are parties to the contingent value right agreement, dated February 24, 1998. This agreement provides that if Prometheus has not doubled its investment (through stock appreciation, dividends, or both) in Konover by January 1, 2004, then we will pay Prometheus, in cash or stock, an amount necessary to achieve such a return (subject to a maximum payment of 4,500,000 shares of our common stock or the cash value thereof).

In addition, in connection with LFREI s investment in Konover, Prometheus, as assignee of PSLLC, and Konover are parties to a stockholders agreement, dated February 24, 1998. Under that stockholders agreement, we are obligated to take all actions necessary to cause our board of directors to consist of at least nine members, three of which are designated by Prometheus. Two of the Prometheus designees are chosen at the sole discretion of Prometheus, while the third Prometheus designee is subject to the reasonable approval of Konover. The stockholders agreement provides that the number of directors that Prometheus is entitled to nominate decreases as the value of its ownership interest in Konover decreases below specified thresholds. As of the date of this proxy statement, the Prometheus designees are Messrs. Ross, Ticotin, and Zobler. Under the stockholders agreement we granted certain equity participation rights to Prometheus. The stockholders agreement also places prohibitions on certain corporate actions that we may not take without first obtaining the approval of over 67% of our board of directors. Before signing the merger agreement, we irrevocably waived the applicability of all restrictions in the stockholders agreement to the extent they applied to the contributions to be made by Prometheus to PSCO, the co-investment agreement, the merger agreement, the merger, and the other transactions contemplated by the merger agreement, including the charter amendments.

Messrs. Ross, Ticotin, and Zobler are affiliated with the Prometheus Parties. Messrs. Ross, Ticotin, and Zobler participated as members of Konover s board of directors in the consideration of the merger agreement, merger, and charter amendments. At all times, the special committee and the board of directors were aware of this affiliation, and at the June 23, 2002 board of directors meeting, the non-Prometheus designated directors had an opportunity to discuss, without the participation of Messrs. Ross, Ticotin, and Zobler, the merger proposal and the charter proposal. The merger agreement provides that each member of our board of directors, other than Messrs. Ross, Ticotin, and Zobler, or their respective successors, will resign from the board, with such resignation to be effective as of the closing of the merger.

Mr. Ticotin is an officer and director of PSCO, and Mr. Zobler is an officer of PSCO. In addition, Mr. Ticotin is a director, officer, and employee, and Mr. Zobler is an officer and employee, of certain of the Prometheus Parties. Mr. Ross is also an officer and employee of certain of the Prometheus Parties. As of the date of this proxy statement, neither Mr. Ross, Mr. Ticotin, nor Mr. Zobler own any shares of PSCO stock. However, immediately before the effective time of the merger, PSCO will issue up to 150 shares of its redeemable preferred stock to approximately 100 individuals in connection with preserving Konover s REIT status after the merger. Mr. Ross, Mr. Ticotin, and Mr. Zobler may each subscribe for one share of the redeemable preferred stock that PSCO will issue immediately before the merger. In the merger, PSCO s newly issued redeemable preferred stock will be converted into the surviving corporation s series B redeemable preferred stock. Accordingly, Mr. Ross, Mr. Ticotin, and Mr. Zobler may each hold one share of the surviving corporation s series B redeemable preferred stock.

Special Interests of Simon Konover.

When we acquired certain properties from Mr. Konover, the chairman of our board of directors, we provided agreements that allow Mr. Konover to reclaim the Konover tradename in certain circumstances, including as a result of the merger. During the June 23, 2002 board of directors meeting and in a communication

dated July 8, 2002, Mr. Konover notified us of his exercise of this right and that he will require Konover and the Operating Partnership to release their claims to the Konover trade name as of the time of the merger.

Purpose of the Merger.

The purpose of the merger for Konover is to allow our unaffiliated common stockholders to maximize the value of their investment in Konover. Our board of directors believes that the merger consideration of $2.10 per share represents the highest likely value that our unaffiliated common stockholders could realize under any scenario currently available to us based on our exploration of strategic alternatives as set forth in Special Factors Background of the Merger.

Konover is undertaking the transaction now primarily because it presents the most viable alternative for Konover at this time, the benefits of which may not be available to our unaffiliated stockholders in the future, and for the reasons set forth in Special Factors Background of the Merger and Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors beginning on pages 39 and 63.

Because Konover is the sole general partner of each of the Operating Partnership and KPT Acquisition, L.P., the purpose of the merger described above for Konover is also the purpose of the merger for each of the Operating Partnership and KPT Acquisition, L.P.

The purpose of the merger for PSCO and the Prometheus Parties is (i) to enhance the value of Konover by significantly reducing the administrative, legal, accounting and other costs associated with being a public company, (ii) to provide the Prometheus Parties with an opportunity to maximize their investment in Konover in accordance with the investment objectives of the Prometheus Parties and (iii) to afford the unaffiliated stockholders with an opportunity to receive cash for their shares of common stock at a fair price. These goals can be accomplished through the acquisition by the Prometheus Parties, along with Kimco, of all of the equity interests in Konover that the Prometheus Parties do not already own.

In order to maximize the value of their investments, the Prometheus Parties, from time to time, review their investment portfolio and evaluate their investments, including the investment in Konover. Prometheus is a significant stockholder of Konover and, accordingly, the Prometheus Parties fully supported the special committee s efforts in exploring strategic alternatives for Konover. Although the Prometheus Parties considered selling their equity interest in Konover as part of a sale of Konover to a third party, they ultimately rejected this alternative because the thorough and comprehensive year-long auction process conducted by the special committee failed to produce a third-party transaction that could reasonably be expected to (i) yield proceeds to Prometheus and the unaffiliated stockholders equal to or in excess of the $2.10 per share merger consideration PSCO was willing to offer and (ii) pay Prometheus for the fair value of the contingent value rights. The Prometheus Parties determined that taking Konover private with a partner would best enable the Prometheus Parties to satisfy their long-term investment goals and concurrently offer a fair price to Konover s unaffiliated stockholders.

PSCO and the Prometheus Parties believe that being a private company will enhance the value of Konover because by eliminating costs associated with being a public company, the overall operational and administrative costs of Konover after the merger will be reduced, resulting in a cash flow benefit to Konover. In addition, as a private company, management resources will no longer be diverted to public company compliance obligations which will enable Konover to dedicate its resources to development, ownership and management of retail shopping centers.

The Prometheus Parties believe that partnering with Kimco in taking Konover private will be beneficial to Konover because Kimco has substantial community shopping center industry experience and Konover s business prospects can be improved by the more active participation of their joint venture partner in the strategic direction and operations of Konover. In addition, the Prometheus Parties feel that partnering with Kimco will be beneficial

to Konover because Kimco s organizational resources will enable it to absorb most of the costs of operating Konover into its already well-developed operating platform. The partnership of the Prometheus Parties and Kimco in taking Konover private will decrease the uncertainty surrounding Konover s future, thereby improving relationships with tenants and lenders and establishing a more favorable environment for the continued operation of the business.

While PSCO and the Prometheus Parties believe that there will be benefits associated with taking Konover private, there are also risks that such opportunities may not be realized. Such risks include, among others, risks associated with the high level of Konover s debt, significant deferred maintenance and leasing issues, and pending and threatened litigation. However, PSCO and the Prometheus Parties regard taking Konover private with Kimco as an attractive investment opportunity and they are willing to accept the risks associated with Konover in an effort to maximize their return.

In addition, for all of the reasons set forth in Special Factors PSCO and the Prometheus Parties Position as to the Fairness of the Merger beginning on page 75, PSCO and the Prometheus Parties believe that the merger will afford the non-affiliated stockholders with an opportunity to receive a fair price for their investment in Konover.

PSCO and the Prometheus Parties determined to undertake the merger at this time in light of the continued deteriorating financial condition of Konover, the weak market response to a potential sale of Konover after an exhaustive year-long auction process and the lack of any alternative to the going-private transaction that would provide Prometheus and the unaffiliated stockholders with a price for their shares equal to or in excess of the price PSCO was willing to offer or at a price that would otherwise benefit Konover.

The merger has been structured as a merger of PSCO with and into Konover with Konover continuing as the surviving corporation in order to permit the acquisition of Konover in a single step and the preservation of Konover s existing contractual arrangements with third parties. The merger was structured as a cash transaction because that was the consideration offered by Prometheus and Kimco in their proposal.

Effects of the Merger

Pursuant to the merger agreement, PSCO will be merged with and into Konover, with Konover surviving the merger. As a result of the merger,

Each share of our common stock issued and outstanding immediately before the merger (other than 16,615,922 shares of Konover common stock that Prometheus will contribute to PSCO immediately before the merger) will be converted into the right to receive $2.10 in cash, without interest, less any applicable withholding taxes.

The 16,615,922 shares of Konover common stock held by PSCO immediately before the merger will be canceled without any payment or other consideration.

Options to purchase shares of Konover common stock with an exercise price below $2.10 per share will be entitled to receive a cash payment equal to the amount by which the per share exercise price is less than $2.10 multiplied by the number of shares of common stock for which the option is exercisable. All out-of-the-money options will be canceled at the effective time of the merger without any payment or consideration.

Prometheus and Kimkon will own 100% of the common stock of Konover following the merger.

Each share of PSCO s redeemable preferred stock issued and outstanding immediately before the merger will be converted into one share of the surviving corporation s newly created Series B redeemable preferred stock.

The merger agreement provides that each share of our Series A convertible preferred stock issued and outstanding immediately before the merger will be converted into either (1) the right to receive 3.045244 fully paid and nonassessable shares of the surviving corporation s newly created Series A convertible preferred stock with rights and preferences set forth in the alternate forms of charter attached to the amendment to the merger agreement and described in Proposal Regarding Charter Amendments or (2) the right to receive a cash payment in the amount equal to the product of (A) 2.900232 (the number of shares of common stock issuable upon conversion of one share of existing Series A convertible preferred stock) and (B) $2.205 (the amount equal to 105% of the price per share of common stock to be paid in the merger). However, because all of our Series A convertible preferred stockholders surrendered for cancellation their shares of Series A convertible preferred stock in connection with the settlement agreement described under Events Relating to the Former Holders of Series A Convertible Preferred Stock, we no longer have any issued and outstanding shares of Series A convertible preferred stock. Thus, this provision of the merger agreement will be inapplicable.

For additional information relating to the effects of the merger on Konover s capital stock, see The Merger and Related Agreements Conversion of Stock and Options.

As a result of the merger, our current common stockholders, other than Prometheus, will not have any interest in our net book value and net earnings following the merger and will not have the opportunity to participate in any future earnings, losses, growth, or decline. PSCO will not survive the merger and, consequently, will have no interest in the net book value and net earnings and losses of the surviving corporation. Prometheus and Kimkon will own 100% of the common stock of the surviving corporation. Other than the individuals who will own the new Series B redeemable preferred stock of the surviving corporation, Prometheus and Kimkon will be entitled to 100% of the net book value and net earnings and losses of the surviving corporation. Based on our audited financial statements, at and for the year ended December 31, 2001, and on our unaudited financial statements at and for the quarter ended June 30, 2002, our net book value was $140.7 million at December 31, 2001 and $136.8 million at June 30, 2002, and our net loss applicable to common stockholders were $128.5 million for the year ended December 31, 2001 and $4.4 million for the six months ended June 30, 2002. Subject to the rights of the holders of the new Series B redeemable preferred stock, Prometheus and Kimkon will be entitled to all benefits resulting from their interest in the net book value and net earnings and losses of the surviving corporation. This includes the right to all income (after providing for dividends on preferred stock) generated by the surviving corporation s operations and any future increase in the surviving corporation s value. Similarly, Prometheus and Kimkon will also bear all the risk of losses generated by the surviving corporation s operations and any future decrease in the value of the surviving corporation. Except for Prometheus, our current stockholders will cease to have any ownership interests in Konover or rights as stockholders after the merger.

Our common stock is currently listed on the New York Stock Exchange and registered under the Exchange Act. After the merger:

- Our common stock will be delisted from the New York Stock Exchange.
- The registration of the common stock under the Exchange Act will be terminated.
- We will be relieved of the obligation to comply with the proxy rules of Regulation 14A under the Exchange Act.
- Our officers, directors, and beneficial owners of more than 10% of the common stock will be relieved of the reporting requirements and restrictions on insider trading under Section 16 of the Exchange Act and will cease filing information with the SEC.
- We will no longer be subject to the periodic reporting requirements of the Exchange Act and will cease filing information with the SEC.

Accordingly, the information we will be required to make publicly available will be significantly reduced. As a private company, we estimate that we will save approximately $900,000 per year in accounting fees, stock transfer fees, filing fees, New York Stock Exchange listing fees, attorney fees, printing and mailing costs, directors and officers liability insurance, board of directors compensation, and other related fees and expenses as compared to costs we incurred in 2001.

In addition, we will terminate our existing shelf registration under the Securities Act of 1933, as amended, which covers, among other things, the resale of 780,680 shares of our Series A convertible preferred stock and of the shares of our common stock issuable upon conversion of the Series A convertible preferred stock. As of the date of this proxy statement, we do not have any outstanding shares of Series A convertible preferred stock.

As more fully described in the next section, Future Plans, at the effective time of the merger, we will file with the State Department of Assessments and Taxation of the State of Maryland one of the alternate forms of charter attached as an exhibit to the amendment to the merger agreement. The bylaws of Konover will be amended and restated as of the effective time of the merger to be substantially identical to the form of bylaws attached as an exhibit to the merger agreement. For additional information relating to the effects of the merger on our organizational documents, see The Merger and Related Agreements The Merger Structure Amendment to Charter and Amendment to Bylaws, and Proposal Regarding Charter Amendments. At the effective time of the merger, Konover will change its name to Kimsouth Realty Inc., and the Operating Partnership will change its name to Kimsouth Properties, L.P.

In addition, the merger agreement provides that, each member of our board of directors (other than Messrs. Ross, Ticotin, and Zobler) will resign from the board of directors upon the closing of the merger. Pursuant to a stockholders agreement, dated June 23, 2002, among PSCO, Prometheus, and Kimkon, Prometheus and Kimkon have agreed that the surviving corporation s board of directors will consist of five members; three of the directors will be nominated by Prometheus, and two of the directors will be nominated by Kimkon. The merger agreement also provides that the directors and officers of PSCO immediately before the merger will be the directors and officers of Konover after the merger.

Future Plans.

Prometheus, Kimkon and the persons controlling each of Prometheus and Kimkon, are continuing to evaluate our business, practices, operations, properties, corporate structure, capitalization, management and personnel to determine what changes, if any, will be desirable in light of the circumstances which then exist. Subject to this evaluation and except as described below, Prometheus and Kimkon expect that, initially following the merger, the business and operations of Konover will generally continue as currently being conducted. Prometheus and Kimkon intend to manage the properties of the surviving corporation and its subsidiaries to maximize the net operating income of the properties. Other than a potential disposition of the Falls Pointe joint venture property pursuant to a buy/sell arrangement that is described in more detail in the next paragraph, Prometheus and Kimkon have no immediate plans to dispose of any of our existing properties. However, Prometheus and Kimkon will continue to evaluate all aspects of the properties following consummation of the merger and will consider what action, if any, would be desirable. Subject to the terms of any agreements governing the relationship between Prometheus and Kimkon following the merger, Prometheus and Kimkon will take any action they deem appropriate under the circumstances.

By letter dated June 26, 2002, the non-managing member of Falls Pointe KPT LLC, a Konover joint venture, exercised his buy/sell right under the joint venture s operating agreement. In accordance with the terms of the operating agreement, we, as the managing member of the venture, delivered a valuation to the non-managing member by letter dated August 26, 2002, which valued the joint venture at $17.5 million. The non-managing member will have 60 days from August 26, 2002, the date of its receipt of the valuation, to choose to either buy our interest in Falls Pointe or sell his interest in Falls Pointe to Konover. The closing of the transfer of venture interests shall occur no later than 30 days after the non-managing member s election. Since the

agreement provides the non-managing member with the option to either buy or sell, there is a possibility that the Falls Pointe property will be disposed of either before or after the merger.

The merger agreement contains two alternate forms of the charter, one of which will be filed with the State Department of Assessments and Taxation of the State of Maryland at the effective time of the merger. Which form of charter will be filed will depend on the vote received on the charter proposal. The form of charter attached as Exhibit B-1 to the amendment to the merger agreement, which contains several amendments that require the approval of two-thirds of the votes entitled to be cast, will be filed only if holders of at least two-thirds of our outstanding common stock approve the charter proposal. The form of charter attached as Exhibit B-2 to the amendment to the merger agreement will be filed if holders of a majority but less than two-thirds of our outstanding common stock approve the charter proposal. However, if the merger is consummated but holders of at least two-thirds of our outstanding common stock do not approve the charter proposal, Prometheus and Kimkon intend, as soon as possible after the amended charter is filed with the State Department of Assessments and Taxation of the State of Maryland and has become effective, to amend and restate the surviving corporation s charter in accordance with its terms to include the additional charter amendments. The charter of the surviving corporation will then be in the form that would have been filed with the State Department of Assessments and Taxation of the State of Maryland had the charter proposal been approved by holders of at least two-thirds of our outstanding common stock.

Our bylaws will be amended and restated as of the effective time of the merger to be substantially identical to the form of bylaws attached as an exhibit to the merger agreement.

The merger agreement also provides that each member of our board of directors (other than Messrs. Ross, Ticotin, and Zobler) will resign from our board of directors, with such resignation to be effective as of the closing of the merger. The board of directors of the surviving corporation will consist of five members, three of whom will be nominated by Prometheus and two of whom will be nominated by Kimkon. PSCO s directors and officers immediately before the effective time of the merger will be the directors and officers of Konover after the merger.

In connection with the merger, it is expected that a substantial number of the current officers and employees of Konover and its subsidiaries will be dismissed. Following the merger, the surviving corporation will hire a third party affiliated with Kimkon to provide it with certain advisory and support services in connection with the management and operation of the surviving corporation s properties, including certain construction management, leasing, and administrative services.

In connection with the merger, Konover will change its name to Kimsouth Realty Inc. The name change is necessary because under a master agreement dated June 30, 1998 entered into by us and affiliates of Simon Konover, one of our directors, Mr. Konover has the right to reclaim the Konover trade name as a result of the merger of PSCO and Konover. At the June 23, 2002 meeting of our board of directors, Mr. Konover indicated that he intends to exercise those rights to reclaim, as of the time of the merger, that trade name. In addition, subsequent to the board meeting, by communication dated July 8, 2002, Mr. Konover formally notified us of his exercise of that right. Accordingly, pursuant to the terms of the master agreement, at the effective time of the merger, Konover and the Operating Partnership will release their claims to the Konover trade name. The Operating Partnership s name will change to Kimsouth Properties, L.P.

Prometheus and Kimkon currently intend that following the merger, the surviving corporation will continue to operate as a REIT through December 31, 2002. Thereafter, Prometheus and Kimkon will convert the surviving corporation from a REIT to a C corporation.

It is expected that, following the merger, the surviving corporation will have a different dividend policy than our current dividend policy. The new dividend policy will provide that each quarter, to the extent funds are legally available, Konover s subsidiaries will distribute 100% of their respective cash available for distribution to

the Operating Partnership or Konover, and, if applicable, to their other equity owners. After payment of any obligations required under Konover s financing arrangements or dividends or other amounts due on the new Series A convertible preferred stock and new Series B redeemable preferred stock of the surviving corporation, Konover will distribute 100% of its cash available for distribution to Prometheus and Kimkon in the form of cash dividends, in each case after setting aside adequate reserves.

Except as described in this proxy statement, Prometheus and Kimkon do not have any present plans or proposals that relate to, or will result in, an extraordinary corporate transaction, such as a merger, reorganization or liquidation involving the surviving corporation or any of its subsidiaries; a sale or transfer of a material amount of the surviving corporation s assets; or any other material changes in the surviving corporation s capitalization, dividend policy, corporate structure, business or composition of the board of directors or management that will be in place immediately following the closing. Prometheus and Kimkon will, however, continue to evaluate the business and operations of Konover following the merger and make such changes as they deem desirable or appropriate.

Financing for the Merger.

The funds to pay the merger consideration will come from a combination of Kimkon s cash contribution of approximately $35.6 million to PSCO and from cash that we have on hand, a portion of which our Operating Partnership will distribute to us immediately before the closing of the merger. There are no financing contingencies to the completion of the merger. Under the terms of the co-investment agreement, to which Konover is an express third-party beneficiary, Kimkon is obligated to make the cash contribution to PSCO after all of the other conditions precedent in the merger agreement to PSCO s obligation to complete the merger are satisfied or waived. The co-investment agreement provides that the parties are entitled to an injunction to prevent breaches of the agreement and to enforce specifically the terms of the agreement, as well as any other remedy to which they are entitled at law or in equity. Konover is an express third-party beneficiary under the co-investment agreement of Kimkon s cash contribution and Kimco s guarantee relating to the contribution. Once the conditions to the merger agreement are satisfied, there are no other conditions precedent to Kimkon s cash contribution obligation. If Kimkon failed to make the cash contribution and all other conditions to the merger agreement have been satisfied, Konover could seek specific performance of Kimkon s obligation to make the cash contribution and Kimco s guarantee relating to the contribution, or Konover could sue for damages arising out of a breach of the co-investment agreement. Konover expects that it would prevail in such action, although we cannot predict the effect that any such action would have on the timing of the merger or on Konover in general. Kimkon s cash contribution, which has been guaranteed by Kimco, will be funded from Kimco s cash on hand or credit facilities. Based on the condensed consolidated balance sheets of Kimco in Kimco s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, Kimco s cash and cash equivalents were $27.5 million, and its marketable securities were $87.5 million. The total amount necessary to purchase all of our outstanding common stock (other than the 16,615,922 shares of common stock that Prometheus will contribute to PSCO and that will be canceled in the merger), and to pay the holders of in-the-money options, will be approximately $33 million.

Estimated Fees and Expenses of the Merger.

Whether or not the merger is completed, in general, all fees and expenses incurred in connection with the merger will be paid by the party incurring those fees and expenses. Under certain circumstances described in The Merger and Related Agreements Termination of the Merger Agreement, we will pay PSCO up to an aggregate of $4,000,000 as a termination fee and reimbursement of the out-of-pocket expenses of PSCO,

Prometheus, Kimkon, and each of their affiliates. Fees and expenses of Konover with respect to the merger are estimated at the time of mailing this proxy statement to be as follows:

Description		Amount
Filing fees	$	7,560
Legal, accounting, and financial advisors fees and expenses		2,525,000
Printing, mailing and solicitation costs		60,000
Miscellaneous expenses		50,000
Total	$	2,642,560

These expenses, or any variation from these estimates, will not reduce the merger consideration stockholders will receive.

Expected Accounting Treatment of the Merger.

The merger will be accounted for as a recapitalization transaction for financial reporting purposes under accounting principles generally accepted in the United States. Under this method of accounting, the historical basis of our assets and liabilities will be carried over to the surviving corporation, payment of the merger consideration will be treated as a redemption of capital stock, and additional capital contributions will be allocated to additional paid-in capital accounts. The costs we incur in connection with the transaction will be expensed in the period in which we incur them.

Material Federal Income Tax Considerations.

Upon completion of the merger, each outstanding share of our common stock will be converted into the right to receive $2.10 in cash, without interest, subject to reduction for applicable withholding taxes. The following discussion is a summary of the material U.S. federal income tax consequences of the merger to our stockholders who will surrender their shares in connection with the merger. The discussion below does not purport to deal with all aspects of U.S. federal income taxation that may affect you in light of your individual circumstances. Nor is it intended for a stockholder subject to special treatment under the federal income tax law, including insurance companies, tax exempt organizations, financial institutions, broker-dealers, foreign persons, stockholders who hold their stock as part of a hedge, integrated transaction, appreciated financial position, straddle or conversion transaction, traders who elect to use the mark-to-market method to account for their securities, stockholders who do not hold their stock as capital assets, and stockholders who have acquired their stock upon the exercise of employee options or otherwise as compensation. In addition, the discussion below does not consider the effect of any applicable state, local, or foreign tax laws. The discussion below is based upon current provisions of the Internal Revenue Code of 1986, as amended (the **Tax Code**), currently applicable treasury regulations promulgated under the Tax Code, and judicial and administrative decisions and rulings. Future legislative changes, judicial decisions, or administrative changes or interpretations could alter or modify the statements and conditions described in this proxy statement. These changes, decisions, or interpretations could be retroactive and could affect the tax consequences of the merger.

This discussion does not address all aspects of U.S. federal income taxation that may be important to a stockholder based on such holder s particular circumstances and does not address any aspect of state, local, or foreign tax laws. Because individual circumstances may differ, we urge each stockholder to consult with your own tax advisor to determine the applicability of the rules discussed below and the particular tax effects of the merger, including the application and effect of state, local, and other tax laws. Foreign stockholders should consult with local advisors as to the tax consequences of the merger.

The conversion of common stock into the right to receive cash pursuant to the merger will be a taxable transaction at the effective time of the merger for federal income tax purposes under the Tax Code. For federal

Table of Contents

income tax purposes, a stockholder will recognize gain or loss equal to the difference between the cash received by the stockholder under the merger agreement and the stockholder s adjusted tax basis in the shares of common stock surrendered in connection with the merger agreement. In general, this gain or loss will be a capital gain or loss and the applicable tax rate for this gain, if any, for non-corporate stockholders (including individuals, estates, and trusts) will depend upon each stockholder s holding period for the shares of common stock at the effective time of the merger. Thus, if a non-corporate stockholder s holding period for the shares of common stock is more than one year, the stockholder will generally be subject to federal income tax at a maximum rate of 20%. If the stockholder s holding period for the shares of common stock is one year or less, the gain will be taxed at the same rate as ordinary income. Capital loss recognized by non-corporate stockholders generally is deductible only to the extent of capital gain plus ordinary income of up to $3,000. Net capital loss in excess of $3,000 may be carried forward to subsequent taxable years.

For corporations, capital losses are allowed only to the extent of capital gains, and net capital gain is taxed at the same rate as ordinary income. Corporations generally may carry capital losses back up to three years and forward up to five years.

Payment in connection with the merger may be subject to backup withholding at a 30% rate. Backup withholding generally applies if the stockholder fails to furnish the stockholder s social security number or other taxpayer identification number, or furnishes an incorrect taxpayer identification number. Backup withholding is not an additional tax but merely a creditable advance payment which may be refunded to the extent it results in an overpayment of tax, provided that specific required information is furnished to the Internal Revenue Service. Certain persons generally are exempt from backup withholding, including corporations and financial institutions. Penalties apply for failure to furnish correct information and for failure to include reportable payments in income. You should consult with your own tax advisors as to the qualifications and procedures for exemption from backup withholding.

Litigation Challenging the Merger.

Between March 15, 2002 and April 2, 2002, three substantially similar class action complaints were filed in the Circuit Court for Baltimore City, Maryland. These actions recently were consolidated. The plaintiff in each action purports to represent a putative class of all our public common stockholders who allegedly will be harmed by the proposed merger transaction. Excluded from the class are the defendants and any related or affiliated person, corporation, or other entity. The named defendants are Konover, certain directors and officers of Konover, and Prometheus. The primary claim against the defendants is an alleged breach of fiduciary duty. The plaintiffs allege that Prometheus, which owns approximately 66% of our outstanding common stock, is engaging in self-dealing and not acting in good faith by offering to acquire all of the remaining outstanding common stock for an unreasonably low price, that Prometheus s offer is based on inside information known to the defendants regarding our value and prospects that has not been publicly disclosed, and that Prometheus improperly is exerting its majority position and control over the directors, which has resulted in conflicts of interest between Prometheus and our common stockholders and between our directors and officers and our common stockholders. The complaints seek an injunction, damages, and other relief.

While we believe that these lawsuits are without merit, we have determined that an early resolution of the claims, without admitting any liability, would avoid costly litigation expenses and would be in the best interests of Konover. On September 20, 2002, the parties, through their respective attorneys, entered into a memorandum of understanding setting forth the terms of the settlement of the lawsuits mentioned above. Under the terms of the memorandum of understanding, in exchange for the release by the plaintiffs of their claims related to the lawsuits, the merger, the merger agreement or any public filings in connection with these matters, against the defendants and certain other related persons, plaintiffs counsel has been granted the opportunity to review and comment on the proxy materials relating to the merger to be filed by Konover with the Securities and Exchange Commission, and to perform reasonable discovery to confirm the fairness of the settlement. In addition, the defendants have agreed not to oppose a petition by plaintiffs counsel for an award of attorneys fees and

expenses not to exceed $225,000 to be paid by Konover or its successor in interest. The consummation of the settlement described in the memorandum of understanding is subject to certain conditions, including consummation of the merger, the drafting and execution of final settlement documents, and obtaining final court approval of the settlement and dismissal of the lawsuits described above.

Events Relating to the Former Holders of Series A Convertible Preferred Stock.

Legal counsel representing the Series A convertible preferred stockholders contacted Kaye Scholer to arrange a meeting in August 2001. On August 14, 2001, Kaye Scholer met with counsel for the Series A convertible preferred stockholders and discussed with them, in general terms, the process we had set up to explore possible strategic alternatives and the progress to date.

At a telephonic meeting of our board of directors on October 8, 2001, Mr. Maloney explained to the board of directors that Konover had received a letter dated September 26, 2001, from counsel for the Series A convertible preferred stockholders. The letter urged us to liquidate our non-outlet assets and alleged that there may be undue influence on the Board by other potentially conflicted shareholders of the company. On October 10, 2001, Konover responded to the September 26, 2001 letter. On October 10, 2001, Kaye Scholer also responded to the September 26, 2001 letter stating that the special committee did not believe that the special committee s pursuing the course of action requested in the September 26, 2001 letter was consistent with the special committee s duties under Maryland law and that the special committee was formed specifically to address any conflicts which might arise between Konover and its majority shareholder in exploring alternatives available to Konover.

During the course of the merger negotiations between Prometheus and Kimco, on the one hand, and Konover, on the other hand, some holders of our existing Series A convertible preferred stock contacted Mr. Zobler, one of the Prometheus designees on our board of directors. On June 10, 2002, Mr. Zobler received a telephone call from Mr. Jarvis, Senior Managing Director of Mercury Partners LLC and the investment banker representing our existing Series A convertible preferred stockholders. On this call, Mr. Jarvis stated that the existing Series A convertible preferred stockholders were dissatisfied with the merger consideration that Prometheus and Kimco had proposed in the letter to the special committee dated May 22, 2002, and that the holders of the existing Series A convertible preferred stock wanted to receive their liquidation preference in the proposed transaction. On June 12, 2002, Mr. Zobler received a telephone call from Mr. Citrin, the Chief Executive Officer of Blackacre Capital Group, L.P. Mr. Citrin said that the Series A convertible preferred stockholders would file suit if the Series A convertible preferred stockholders did not receive their liquidation preference in the proposed Konover merger. Mr. Zobler informed Mr. Citrin that our charter clearly states the existing Series A convertible preferred stockholders rights in a going-private transaction and that any suggestion that the holders of the existing Series A convertible preferred stock were entitled to their liquidation preference was incorrect.

On June 14, 2002, some of our former Series A convertible preferred stockholders filed a lawsuit against us, alleging, among other things, that we breached our contractual obligations under the note purchase agreement dated April 2, 1996, by failing to register the plaintiffs shares of Series A convertible preferred stock. The lawsuit was filed in the United States District Court of the Southern District of New York by Blackacre Bridge Capital LLC, Gildea Management Company, Blackacre Capital Group L.P., Network Fund Associates III, Ltd., John Gildea, William O Donnell and North Atlantic Smaller Companies Investment Trust PLC. The complaint seeks money damages, punitive damages, imposition of a constructive trust for plaintiffs benefit, and other relief. We believe that there is no merit to the allegations contained in the complaint because, among other things, Konover filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission in 1999 pursuant to which we registered the resale of all of the plaintiffs shares of our Series A convertible preferred stock, as well as the resale of the common stock issuable upon conversion of the plaintiffs shares of our Series A convertible preferred stock. The Securities and Exchange Commission issued an order declaring the registration statement effective on November 12, 1999.

Table of Contents

On June 27, 2002, the financial advisor to the holders of our Series A convertible preferred stock issued a press release in which it released a letter it purported to have previously delivered to the special committee, although the special committee members and its advisors had not seen the letter until its public release. The letter was dated June 17, 2002 and urges that we pursue a liquidation strategy. In addition, the letter makes a number of allegations that we believe are without merit and if they are asserted in a lawsuit by the holders of the Series A convertible preferred stock, we will defend any such lawsuit vigorously.

While we believe that the lawsuit mentioned above is without merit, we have determined that an early resolution of the claims, without admitting any liability, would avoid costly litigation expenses and would be in the best interests of Konover. On October 10, 2002, the plaintiffs to the lawsuit mentioned above, as well as the other existing Series A convertible preferred stockholders and certain related parties holding warrants to purchase Konover common stock (all of whom are collectively referred to as the Preferred Parties), entered into a settlement agreement with Konover, Kimco, PSCO and Prometheus, setting forth the terms of the settlement of the lawsuit mentioned above, any claims the Preferred Parties have threatened to assert in the lawsuit or elsewhere and any claims relating to the merger, their investment in Konover, and/or Konover or our subsidiaries. Under the terms of the settlement agreement, in exchange for an aggregate payment of $9.5 million, the Preferred Parties agreed to surrender for cancellation all of the shares and warrants held by such persons and released the claims described in the foregoing sentence. The payment represents payment in full for all claims asserted or which could have been asserted in the lawsuit referred to above, and any other claims which could be asserted against Konover, Kimco, PSCO, Prometheus or certain related parties, relating to the merger, the lawsuit referred to above, the Preferred Parties investment in Konover, and/or Konover or our subsidiaries. Concurrently with the execution of the settlement agreement, the plaintiffs in the lawsuit executed a stipulation of dismissal with prejudice which was filed with the court on October 11, 2002.

Table of Contents

The Merger and Related Agreements

The following is a summary of the material provisions of the merger agreement, as amended to date, the voting agreement, the co-investment agreement, and the supplemental voting and tender agreement. Copies of the merger agreement and amendment no. 1 to the merger agreement are attached as Appendices A1 and A2 to this proxy statement and incorporated in this document by reference. We refer to the merger agreement and amendment no. 1 to the merger agreement collectively as the merger agreement in this proxy statement. Copies of the voting agreement, the supplemental voting and tender agreement, the co-investment agreement, and amendment no. 1 to the co-investment agreement, which we collectively refer to as the related agreements, are attached as Appendices B, C, D1 and D2, respectively, to this proxy statement and are incorporated in this document by reference. This summary includes reference to the articles in the merger agreement, but it does not contain all the information you should consider and is qualified in its entirety by reference to the merger agreement and the related agreements. We urge you to read the merger agreement in its entirety for a more complete description of the terms and conditions of the merger.

The Merger Structure.

The merger agreement provides that PSCO will be merged with and into Konover. As of the date of this proxy statement, the stockholders of PSCO are Prometheus and Kimkon. At the time of the merger, the separate corporate existence of PSCO will cease and Konover will continue as the surviving corporation operating under the name Kimsouth Realty Inc.

On the record date, Prometheus owned 21,052,631 shares of Konover common stock. Concurrently with the execution of the merger agreement, PSCO, Prometheus, Kimkon, Kimco and the LFSRI II Funds entered into a co-investment agreement. Pursuant to that agreement, Prometheus has agreed to contribute to PSCO immediately before consummation of the merger (1) 16,615,922 of Prometheus s shares of our common stock and (2) all of Prometheus s rights and obligations under the contingent value right agreement, in exchange for an additional equity interest in PSCO. Also pursuant to the co-investment agreement, Kimkon has agreed to contribute to PSCO immediately before consummation of the merger cash in the amount of $35,554,438.50 in exchange for an additional equity interest in PSCO. The co-investment agreement also provides that on the closing date of the merger but before it is consummated, PSCO will issue up to 150 shares of redeemable preferred stock to approximately 100 individuals. See The Merger and Related Agreements Co-Investment Agreement below.

Concurrently with the execution of the merger agreement, as a condition to the willingness of Konover and Kimkon, in its capacity as a stockholder of PSCO, to enter into the merger agreement, Prometheus entered into a voting agreement with Konover and Kimkon. This agreement provides for, among other things, Prometheus s agreement to vote its shares of Konover common stock in favor of approval of the merger proposal and the charter proposal at the special stockholders meeting. See The Merger and Related Agreements Voting Agreement.

Konover is the sole general partner of the Operating Partnership. As of the date of the merger agreement, Konover held all of its OP Units through a wholly owned subsidiary, KPT Properties Holding Corp. Pursuant to the merger agreement and prior to the merger, the OP Transfer will occur, whereby we will cause KPT Properties Holding Corp. to transfer to Konover all of the OP Units it holds, except for 0.1% of the total common OP Units.

Konover directly or indirectly owns substantially all of the Operating Partnership s OP Units. Subsequent to the OP Transfer but prior to the merger, we will cause KPT Acquisition, L.P., a newly formed wholly owned Delaware limited partnership, to be merged with and into the Operating Partnership, with the Operating Partnership being the surviving entity. The OP Merger will occur on the same date as the merger of Konover and PSCO. Pursuant to the OP Merger, each OP Unit, other than those owned directly or indirectly by Konover, will be converted automatically into the right to receive $2.10 in cash, an amount equal to the per common share cash

consideration to be paid in the merger of PSCO and Konover. Upon completion of the OP Merger, Konover and its subsidiaries will own 100% of the OP Units in the Operating Partnership.

Immediately after the OP Merger but immediately before the consummation of the merger of Konover and PSCO, Konover will cause the Operating Partnership to distribute $12,000,000.00 in cash to Konover. This OP Distribution will be made out of the Operating Partnership s funds remaining after paying the merger consideration to the minority OP Unitholders in the OP Merger.

The Merger (Article 1)

Amendment to Charter.

If the merger is consummated, Konover will be the surviving corporation. A condition to the merger is that our charter be amended at the effective time of the merger to include certain amendments contemplated by the merger agreement. The merger agreement contains two alternate forms of the charter, one of which will be filed with the State Department of Assessments and Taxation of the State of Maryland at the effective time of the merger. Which form of charter will be filed will depend on the vote received on the charter proposal. The form of charter attached as Exhibit B-1 to amendment no. 1 to the merger agreement, which contains several amendments that require the approval of two-thirds of the votes entitled to be cast, will be filed only if holders of at least two-thirds of our outstanding common stock approve the charter proposal. The form of charter attached as Exhibit B-2 to amendment no. 1 to the merger agreement, which is substantially identical to Exhibit B-1, will be filed if holders of a majority but less than two-thirds of our outstanding common stock approve the charter proposal. Approval of the charter amendments requiring a two-thirds vote, which amendments principally relate to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock, is not a condition to the merger. If the merger is consummated but holders of at least two-thirds of our outstanding common stock do not approve the charter proposal, Prometheus and Kimkon, as soon as possible after the first form of charter is filed with the Maryland State Department of Assessments and Taxation and has become effective, intend to amend and restate the surviving corporation s charter in accordance with its terms to include these additional charter provisions. See Proposal Regarding Charter Amendments for a summary of the differences between (a) our existing charter, (b) the charter amendments to be effected if the charter proposal is approved by holders of at least two-thirds of the outstanding shares entitled to vote, and (c) the charter amendments to be effected if the charter proposal is approved by holders of a majority, but less than two-thirds, of the outstanding shares entitled to vote. A copy of both proposed forms of charter are attached as exhibits to amendment no. 1 to the merger agreement, which is attached as Appendix A2 and incorporated in this proxy statement by reference.

You are being asked to vote on the charter amendments because Maryland law requires charter amendments to be approved by common stockholders. However, the charter amendments will not affect your rights as a common stockholder because if the merger is consummated, you will receive cash for your shares and will no longer own any interest in us. If the merger is not consummated, the charter will not be amended.

If this merger is consummated, the material differences between our existing charter and the charter as amended in connection with the merger will be relevant only to Prometheus, since it will be the only one of our current stockholders who will continue to own shares in us. See Proposal Regarding Charter Amendments below.

Amendment and Restatement of Bylaws.

The merger agreement provides that the bylaws of Konover will be amended and restated as of the effective time to be substantially identical to the form of bylaws attached as an exhibit to the merger agreement.

Table of Contents

Officers and Directors.

At the effective time of the merger, the directors and officers of PSCO will become the directors and officers of Konover, as the surviving corporation. As a condition to the closing of the merger, each director of Konover, other than those directors designated by Prometheus, will resign from our board of directors with such resignations to be effective as of the closing of the merger.

Effective Time.

The merger will become effective when the articles of merger have been filed with and accepted for record by the State Department of Assessments and Taxation of the State of Maryland in accordance with the Maryland General Corporation Law. At that time, PSCO will be merged with and into Konover and will cease to exist as a separate entity. As the surviving corporation in the merger, Konover will have as its stockholders Prometheus, Kimkon, and holders of PSCO s redeemable preferred stock, who will receive in the merger shares of the surviving corporation s new Series B redeemable preferred stock. Before we may file the articles of merger, the Konover common stockholders must approve the transaction (as described in The Special Meeting Quorum and Vote Required), and the other conditions in the merger agreement, which we discuss below, must be satisfied or waived. The merger must be completed on or before March 31, 2003, unless that date is extended by Konover and PSCO.

Conversion of Stock and Options (Article 2).

PSCO Stock.

At the effective time of the merger, each issued and outstanding share of PSCO common stock will be converted into one fully paid and nonassessable share of the surviving corporation s common stock. Each issued and outstanding share of PSCO redeemable preferred stock will be converted into one fully paid and nonassessable share of the surviving corporation s Series B redeemable preferred stock.

Konover Common Stock.

Our common stock issued and outstanding immediately before the effective time of the merger will be divided into two groups. The first group will consist of the 16,615,922 shares of common stock that Prometheus will contribute to PSCO immediately before the merger pursuant to the co-investment agreement. The second group will consist of the shares of common stock held by the public stockholders and the shares of common stock held by Prometheus that it does not contribute to PSCO. When the merger becomes effective, the 16,615,922 shares of common stock held by PSCO will automatically be canceled and retired without payment of consideration. The common stock held by the public stockholders and the common stock still held by Prometheus will be converted into the right to receive $2.10 in cash, without interest, less any applicable withholding taxes.

Konover Series A Convertible Preferred Stock.

As of the date of the merger agreement, there were 780,680 shares of our existing Series A convertible preferred stock outstanding. The merger agreement provides that each holder of Series A convertible preferred stock can choose to receive either of the following:

1) 3.045244 fully paid and nonassessable shares of a newly created Series A convertible preferred stock of the surviving corporation with rights and preferences as discussed below; or

2) a cash payment of $6.395, which equals the product of (A) 2.900232 (the number of shares of Konover common stock issuable upon conversion of one share of existing Series A convertible preferred stock) and (B) $2.205 (an amount equal to 105% of the per share common stock consideration payable in the merger, which is the percentage required by the terms of our charter in connection with a going-private transaction such as the merger).

Table of Contents

A summary of the material terms of the new Series A convertible preferred stock and a comparison of those terms to our existing Series A convertible preferred stock is set forth below under Proposal Regarding Charter Amendments. However, as of the date of this proxy statement, there are no shares of our Series A convertible preferred stock outstanding. See Events Relating to the Former Holders of Series A Convertible Preferred Stock. Therefore, the provisions of the merger agreement regarding consideration for the Series A convertible preferred stock will be inapplicable in connection with the merger, and no shares of the new Series A convertible preferred stock will be issued in the merger.

Appraisal Rights.

There are no dissenters or appraisal rights provided under the merger agreement or otherwise offered in the merger. Under Maryland law, since our common stock is listed on the NYSE, you do not have the right to dissent and receive the appraised value of your shares in connection with the merger.

Treatment of Stock Options, Purchase Rights, Repurchase Rights, and Warrants.

Immediately before the merger, each outstanding stock option, purchase right, repurchase right, or other similar right, to purchase shares of our common stock will, in effect, become fully vested. Stock options, purchase rights and repurchase rights, with an exercise price of less than $2.10 per share will be entitled to receive a cash payment equal to the amount by which the per share exercise price is less than $2.10 multiplied by the number of shares of common stock subject to such existing options, purchase rights, or repurchase rights. All out-of-the-money options, purchase rights, repurchase rights, and warrants will be canceled at the effective time of the merger without any payment or consideration. All warrants have exercise prices in excess of $2.10 and will therefore be canceled at the effective time of the merger without any payment or consideration. The merger agreement also provides that at the effective time of the merger, all stock option and similar employee benefit plans will terminate. Purchase rights and repurchase rights include dividend equivalent rights. With the exception of these dividend equivalent rights, purchase rights and repurchase rights are functionally and legally the same as options. Accordingly, throughout this proxy statement, we have simply referred to options, purchase rights, and repurchase rights as options or stock options.

Procedures for Exchange of Stock and Options (Article 3).

Before the merger, PSCO will appoint a bank or trust company to act as the paying agent. Promptly following consummation of the merger, PSCO will deposit with the paying agent, in trust for the benefit of the holders of our currently outstanding common stock and in-the-money options to be cashed out, all the cash to be paid in exchange for the outstanding shares of stock or in-the-money options. After the merger, the paying agent will send to each record holder of outstanding stock and in-the-money options a transmittal letter. The transmittal letter will provide instructions on how to properly surrender your stock certificates or options for payment of the merger consideration.

Following the merger, the holders of Konover stock certificates will cease to have any rights with respect to shares of our stock other than the right to receive the appropriate merger consideration and as may otherwise be provided by law. After the merger, any certificates presented to the paying agent will be canceled and exchanged for the appropriate merger consideration.

No interest will be paid or accrued on the cash payable upon the surrender of your stock certificate. If you transfer ownership of your common stock without the transfer being registered in our transfer records, the paying agent may issue a check in the proper amount to the transferee only if the transferee presents the certificate to the paying agent, accompanied by all documents required to evidence and effect the transfer and to evidence that any applicable stock transfer taxes have been paid.

Any cash payable to you will be subject to applicable withholding taxes. After the merger, you will be unable to effect a transfer of shares on our stock books.

You should not send your Konover common stock certificates to the paying agent until you receive a letter of transmittal from the paying agent.

Representations and Warranties.

By Konover (Article 4).

In the merger agreement, we make customary representations and warranties, subject, in many cases, to materiality qualifications and specific exceptions that were disclosed in writing to PSCO, concerning our business and assets and our subsidiaries relating to, among other things, the following:

- Our organization, qualification and power to carry on our business;
- Our power and authority to execute, deliver and perform our obligations under the merger agreement;
- The determination of the fairness and necessary approvals of the merger by the special committee and the board of directors;
- The taking of certain actions by the special committee and the board of directors necessary to ensure the merger does not violate any laws, our bylaws, our charter, or any agreement to which we are a party;
- Our and the Operating Partnership s capital structure and outstanding securities;
- The conversion price of the existing Series A convertible preferred stock and the exercise price of our outstanding warrants;
- Consents or approvals necessary to complete the merger;
- Our subsidiaries and the voting interests we hold in other entities;
- The accuracy and timeliness of our SEC filings, including the information in this proxy statement;
- The absence of material adverse changes and undisclosed liabilities;
- Our compliance with applicable laws;
- Our REIT status for all taxable years for which the Internal Revenue Service could assert a tax liability through the date of the merger;
- The property rights in our real properties;
- Our leases with tenants;
- The properties condition and compliance with laws;
- Our labor relations and employee benefit matters;
- Our compliance with environmental laws;
- The material contracts to which we are a party;
- The absence of legal proceedings except as disclosed;
- The solvency of the Operating Partnership, even after the OP Merger and the OP Distribution;
- Brokers and finders fees;

Insurance; and

Related-party transactions.

Table of Contents

By PSCO (Article 5).

PSCO also makes customary representations and warranties in the merger agreement, subject, in a few cases, to materiality qualifications and specific exceptions that were disclosed in writing to Konover, relating to the following:

PSCO s organization, qualification, power to carry on its business, and capitalization;

PSCO s power and authority to execute, deliver, and perform its obligations under the merger agreement;

The absence of violation of PSCO s organizational documents, any laws, or any agreements to which PSCO is a party;

The approval of the merger as required by law, including by PSCO s stockholders;

The absence of legal proceedings;

Brokers and finders fees;

The accuracy of the information provided by PSCO for inclusion in this proxy statement; and

The commitment of Prometheus and Kimkon pursuant to the co-investment agreement that the funds to pay all consideration due under the merger agreement will be available.

Conduct of Konover s Business Before the Merger (Article 6).

Under the merger agreement, we agreed that, after signing the merger agreement and before the merger, we and our subsidiaries will do the following (unless otherwise permitted under the merger agreement or disclosed in writing to PSCO):

conduct our respective businesses in the usual, regular and ordinary course and in substantially the same manner as conducted through the signing of the merger agreement;

use reasonable efforts to preserve intact our present lines of business, maintain our rights and preserve our relationships with customers, tenants, suppliers, and others having ongoing business with us;

take all action necessary to preserve our status as a REIT;

timely file tax returns;

not pay dividends on or make distributions with respect to our common stock except for such a distribution (or increase in a distribution) which is necessary for us to maintain our REIT status, to avoid the incurrence of any taxes under Section 857 of the Tax Code, or to avoid the imposition of any excise taxes under Section 4981 of the Tax Code;

not issue, sell, pledge, authorize or propose the issuance of any other securities in respect of shares of capital stock, other than under specified previously existing contractual agreements;

not adjust, split, combine or reclassify any capital stock or any other equity interests of Konover or our subsidiaries (including the Operating Partnership);

not repurchase, redeem or otherwise acquire any shares or any securities convertible into or exercisable for any shares, other than under previously existing contractual agreements or with respect to our employee benefit plans in the ordinary course of business consistent with past practice;

not amend our respective organizational and governing documents;

not sell, lease, encumber, or otherwise dispose of or encumber any shares of stock or any other equity interests of Konover or our subsidiaries;

not purchase any securities or make any material investment in any person other than in a wholly owned subsidiary, or otherwise acquire direct or indirect control over any person other than in connection with the merger agreement;

not create, incur, or assume indebtedness;

not make any loans, except loans to our wholly owned subsidiaries;

not materially change our method of accounting, except as required by tax laws or generally accepted accounting principles, or make or revoke any tax elections, except as necessary to preserve Konover s REIT status or the partnership, qualified REIT, or taxable REIT status of our subsidiaries;

not amend, enter into, or adopt any employment, severance, or other similar plan or agreement with respect to any employee of Konover or our subsidiaries, nor increase the compensation of directors, officers, or employees of Konover or our subsidiaries except in the ordinary course of business consistent with past practice and subject to certain limits;

not enter into, adopt, amend, or terminate any employee benefit arrangement, except as required by law or pursuant to the merger agreement;

not enter into material contracts;

except as specifically provided, not settle or compromise suits, actions, or claims pending or threatened against Konover or our subsidiaries;

not make capital expenditures;

not enter into, prepay (or accept prepayment of), or terminate or amend any real estate lease or any material contract (including any loan agreement), or waive, release, compromise, or assign any material rights or claims;

not commence any offering period under the 1997 Employee Stock Purchase Plan that was discontinued in 2001;

not enter into or amend any agreement with the joint ventures (Atlantic Realty LLC, Park Place KPT, LLC, Falls Pointe KPT, LLC, Brunswick Commercial LLC, and Mercer Mill KPT LLC) or with the joint venture partners or any agreement with any person relating to the joint ventures;

not invoke any buy/sell right under any agreement relating to the joint ventures or deliver to a joint venture partner any valuation relating to the properties of the joint ventures in connection with such joint venture partner s exercise of a buy/sell right or a right of first offer ;

not sell, lease, mortgage, subject to any material lien, or otherwise dispose of any real property;

not sell, lease, mortgage, subject to any material lien, or otherwise dispose of any personal property or intangible property, except for those not material and which are made in the ordinary course of business; and

not enter into an agreement to take any of the actions described above.

The merger agreement obligates both parties to refrain from taking action that would adversely affect the likelihood of the merger being consummated. In addition, both parties agreed to promptly give written notice if there is a material adverse event affecting them occurring between the time of signing the merger agreement and the closing.

Additional Agreements (Article 7).

SEC Filings.

Under the merger agreement, we agreed to prepare and file this proxy statement with the Securities and Exchange Commission in connection with the solicitation of proxies for the special stockholders meeting. We also agreed to assist in the preparation of the filing of a Schedule 13E-3 with the Securities and Exchange Commission.

Table of Contents

Stockholders Meeting.

Under the merger agreement, we agreed to convene the special meeting of stockholders to consider and vote upon the approval of the merger proposal and the charter proposal. In connection with this meeting, we must use our reasonable best efforts and take all other necessary lawful action to solicit the approval of the merger proposal and the charter proposal by our stockholders.

No Solicitation of Transactions.

The merger agreement provides that we may not, and may not permit any of our subsidiaries or any of our representatives, directly or indirectly, to initiate, solicit, or knowingly encourage the submission of any proposal for an alternate acquisition transaction. Such a proposal for an alternate acquisition transaction is referred to in this proxy statement as an alternative acquisition proposal.

In addition, the merger agreement provides generally that Konover and our subsidiaries may not participate in discussions with or furnish any information to any person who is attempting to make, or otherwise negotiate or accept, an alternative acquisition proposal. However, so long as we have not breached our no-shop obligation, before the stockholders meeting, in response to an unsolicited alternative acquisition proposal, we may furnish information to or enter into negotiations or discussions with any person making an unsolicited alternative acquisition proposal if two conditions are met. First, such action must be taken subject to a confidentiality agreement between us and the new bidder with the terms of such confidentiality agreement being no less favorable to us than our currently existing confidentiality agreements with Prometheus and Kimco. And second, the special committee and the board of directors (acting without the participation of Messrs. Ross, Ticotin, and Zobler, or their respective successors) each reasonably determines in good faith and after consultation with an independent nationally recognized investment bank that such alternative acquisition proposal is a superior proposal (discussed below). In addition, we must provide same day notice to PSCO of any inquiries or negotiations relating to an alternative acquisition proposal and must keep PSCO informed of the status of any such inquiries, or negotiations.

In the merger agreement, we agreed to use our reasonable best efforts to immediately cease any and all existing activities, discussions, or negotiations with any person with respect to an alternative acquisition proposal.

The merger agreement defines a superior proposal as a bona fide written alternative acquisition proposal made by a third party which our board of directors (acting without the participation of Messrs. Ross, Ticotin, or Zobler, or their respective successors) determines in good faith:

(1) is more favorable, from a financial point of view, than the merger of PSCO and Konover;

(2) is reasonably capable of being completed on a timely basis; and

(3) is not conditioned on any financing not already committed.

Generally, after signing the merger agreement, neither our board of directors nor the special committee may

(1) withdraw, qualify, modify, or amend its approval, adoption, or recommendation of the merger in a manner adverse to PSCO;

(2) approve or recommend any third party s alternative acquisition proposal;

(3) cause Konover to accept such third party s alternative acquisition proposal or enter into any letter of intent related to such alternative acquisition proposal; or

(4) resolve to do any of the foregoing.

However, our board of directors (acting without the participation of Messrs. Ross, Ticotin, or Zobler, or their respective successors), based on the recommendation of the special committee, may take such actions before the stockholders meeting if the following conditions are met:

(1) We have not breached our no-shop obligations;

(2) the alternative acquisition proposal is a superior proposal; and

(3) all the conditions to our right to terminate the merger agreement have been satisfied, including the payment of the termination fee and reimbursement of expenses (discussed below).

Information and Confidentiality.

Konover and PSCO must keep each other advised of all material developments relevant to our respective businesses and the consummation of the merger. In the merger agreement, each party, on its own behalf and on behalf of its advisers and agents, pledged to maintain the confidentiality of all confidential information furnished to it by the other party. Each party also agreed not to use the other party s confidential information for any purpose except in furtherance of the merger and other transactions contemplated by the merger agreement.

Through the time of the closing of the merger, we will be obligated, however, to afford to PSCO and its affiliates and representatives reasonable access to all of our properties, books, contracts, personnel and records, and accountants. During that period, we also must furnish to PSCO copies of each filing with or notice from any state or federal securities regulatory authority and all other information concerning our business, properties, assets, and personnel.

Press Releases.

Konover and PSCO must mutually agree on the form and substance of the initial press release related to the merger agreement and the transactions contemplated by it. This press release was made on June 24, 2002 and was filed as an exhibit to our Form 8-K that we filed on June 25, 2002. Before closing the merger, Konover and PSCO must consult with each other before making any public disclosures related to the merger. However, we both retain the right to make any disclosure that our legal advisors may deem necessary or advisable in order to satisfy disclosure obligations under securities laws.

Employee Benefits and Contracts.

Under the merger agreement, the surviving corporation must honor, in accordance with their terms, all employment, severance, and consulting agreements between Konover or any subsidiary, on the one hand, and any current or former director, officer, or employee. However, this obligation only relates to agreements disclosed in writing to PSCO before the signing of the merger agreement. Through the time of the closing of the merger, we have also agreed to take such actions as are reasonably necessary so that no offering period under the employee stock purchase plan starts after the date of the merger agreement.

Indemnification of Konover Officers and Directors.

The merger agreement provides that the surviving corporation will indemnify each present and former director, officer, employee, and agent of Konover and our subsidiaries against any costs, expenses, or liabilities arising out of actions or omissions relating to the person s service to, or at the direction of, Konover. This indemnification will be to the fullest extent permitted or required under Maryland law and by our charter and bylaws as in effect on June 23, 2002. This indemnification obligation will continue for a period of six years following the consummation of the merger. Additionally, the surviving corporation will assume our

indemnification obligations under currently existing indemnification agreements with our directors and certain officers.

If the surviving corporation later consolidates with or merges into any other entity and is not to be the continuing or surviving entity, or if it transfers all or substantially all of its assets to another entity, then in each case, proper provision must be made so that the successors and assigns of the surviving corporation assume the indemnification obligations described above.

OP Holdback Units.

The merger agreement requires Konover, as general partner of the Operating Partnership, to waive the conditions relating to and to cause the issuance of 33,454 OP Units to John Kane in accordance with the exchange option agreement dated October 1, 1997. This issuance must occur before the OP Merger.

OP Transfer.

Konover, in our capacity as the sole stockholder of KPT Properties Holding Corp., must cause the OP Transfer to be consummated at least two business days before the OP Merger.

OP Merger.

Prior to the merger of Konover and PSCO, Konover, in our capacity as general partner of the Operating Partnership, must cause the OP Merger to be consummated subsequent to the OP Transfer and immediately before the OP Distribution. PSCO has the right to review the merger documents relating to the OP Merger before filing with the Secretary of State of Delaware (the Operating Partnership and KPT Acquisition, L.P., the partnership that will merge into it, are both Delaware limited partnerships). The documentation pursuant to which the OP Merger is effected must provide that each OP Unit owned by the limited partners of the Operating Partnership, other than OP Units owned by Konover or its subsidiaries, will be converted automatically into the right to receive a cash payment, without interest, in an amount equal to $2.10.

OP Distribution.

Konover, in our capacity as general partner of the Operating Partnership, must cause the OP Distribution to occur immediately following the OP Merger and immediately before the consummation of the merger of Konover and PSCO.

Notice to Holders of Series A Convertible Preferred Stock.

The merger agreement obligates us to provide notice, as soon as practicable following June 23, 2002, but no later than 20 days before the merger, to the holders of the existing Series A convertible preferred stock. The notice must comply with our charter and must contain information about the election that the holders of the Series A convertible preferred stock can make to receive either shares of the new Series A convertible preferred stock or cash. However, since we do not have any outstanding shares of Series A convertible preferred stock, this requirement is inapplicable and has been waived by PSCO.

Notices to Holders of Warrants.

The merger agreement obligates us, as soon as practicable following June 23, 2002, to mail written notice of the merger to our existing warrantholders. The notice must comply with the provisions of the applicable warrant. The notice to the holders of warrants issued in the 1998 transaction with Simon Konover, one of our directors, and his affiliates, family members, and their affiliates must be mailed no later than 10 days before the merger. The notice to the holders of the warrants issued in connection with the issuance of the existing Series A

convertible preferred stock must be mailed no later than 15 days before the later of (a) the record date for the merger or (b) the effective date of the merger.

Stockholder Claims.

The merger agreement obligates us to give PSCO the opportunity to participate in the defense or settlement of any stockholder litigation against us and our directors relating to the merger or any related transaction. The merger agreement prohibits us from settling such litigation without PSCO s consent, which consent may be granted or withheld in PSCO s sole discretion. The parties have agreed to settle the lawsuits described under Special Factors Litigation Challenging the Merger and Special Factors Events Relating to the Former Holders of Series A Convertible Preferred Stock. PSCO has granted its consent to each of these settlements pursuant to the terms of the merger agreement.

Delisting and Termination of Registration.

In the merger agreement, the parties agreed to take all action necessary to delist our common stock from the NYSE and terminate its registration under the Securities Exchange Act of 1934. Following the merger, we will no longer be required to file periodic reports under the Exchange Act. See Special Factors Effects of the Merger.

Anti-Takeover Statutes.

If any state or federal anti-takeover statute or regulation is or may become applicable to the merger or the transactions related to it, the merger agreement obligates us and PSCO and our respective boards of directors to grant such approvals and take such actions as are necessary so that the transactions can be consummated as soon as possible and on the terms contemplated by the merger agreement.

Third-Party Management Agreements.

Before the merger, we may not amend or renew any agreement relating to the development or management of any of our operating properties without PSCO s approval. Further, if PSCO requests, we must use our reasonable best efforts to terminate any or all of those third-party management agreements.

Stockholders Agreement Waiver.

PSLLC is the counterparty to the stockholders agreement of February 24, 1998. Before signing the merger agreement, we irrevocably waived the applicability of all restrictions in this stockholders agreement to the extent applicable to the transactions contemplated by the merger agreement, including the contributions to be made by Prometheus to PSCO pursuant to the co-investment agreement.

Rent Roll.

We must revise and update our rent roll on a monthly basis and furnish a copy to PSCO until the closing of the merger.

Conditions to the Merger (Article 8).

The parties respective obligations to complete the merger are subject to satisfaction or waiver of the following conditions:

Our common stockholders must approve the merger proposal and the charter proposal by the affirmative vote of at least a majority of the votes entitled to be cast;

Table of Contents

All necessary regulatory approvals must be obtained;

No governmental authority may have enacted any order or law that would make the merger illegal or otherwise prohibit its closing; and

The contributions by Prometheus and Kimkon to PSCO contemplated by the co-investment agreement must have been made. However, under the terms of the co-investment agreement, Prometheus and Kimkon are obligated to make their respective contributions to PSCO after all of the conditions precedent in the merger agreement to PSCO s obligation to complete the merger are satisfied or waived. If either Prometheus or Kimkon fails to make its respective contribution, Konover has the right, under the co-investment agreement, to seek enforcement of such contribution and the guarantee relating to such contribution.

In addition, the obligations of PSCO to complete the merger is subject to satisfaction or waiver by PSCO of the following conditions:

Our representations and warranties must be true as of the date of the closing except for those that speak as of a specified date, which need only be true as of the date specified. For purposes of evaluating the accuracy of our representations and warranties, knowledge and materiality qualifiers are ignored, but generally this closing condition will be satisfied unless the inaccuracies in the aggregate are so great as to result in a material adverse effect on Konover. The only exception to this material adverse effect standard is that PSCO need not close if there are any inaccuracies (other than minor inaccuracies) relating to our representations and warranties regarding our capitalization. Material adverse effect with respect to Konover is defined in the merger agreement to exclude liabilities associated with litigation relating to the merger;

We must have performed or complied in all material respects each of our material obligations, agreements, and covenants under the merger agreement required to be performed by us at or before the effective time of the merger;

Prior to the OP Merger, we must have completed the OP Transfer;

After the OP Transfer and immediately before the OP Distribution, the Operating Partnership must have consummated the OP Merger;

Immediately following the OP Merger but immediately before the effective time of the merger of PSCO and Konover, the Operating Partnership must have made the OP Distribution; and

We must have delivered to PSCO letters of resignation from each member of Konover s board of directors for such resignation to be effective as of the closing, other than from Messrs. Ross, Ticotin, and Zobler (or each of their successors).

Our obligation to complete the merger is also subject to the satisfaction or waiver by us of the following conditions:

PSCO s representations and warranties must be true as of the date of the closing except for those that speak as of a specified date, which need only be true as of the date specified. For purposes of evaluating the accuracy of PSCO s representations and warranties, knowledge and materiality qualifiers are ignored, but this closing condition will be satisfied unless the inaccuracies in the aggregate are so great as to result in a material adverse effect on PSCO Material adverse effect with respect to PSCO is defined in the merger agreement to only include PSCO s ability to perform its obligations under the merger agreement or consummate the merger and the other transactions contemplated by the merger agreement; and

PSCO must have performed or complied in all material respects each of its material obligations, agreements, and covenants under the merger agreement required to be performed by PSCO at or before the effective time of the merger.

Termination of the Merger Agreement (Article 9).

The merger agreement may be terminated at any time before the closing, whether before or after our stockholders approve the merger:

by mutual written consent of us and PSCO;

by either PSCO or us if the other party has breached or failed to perform any representation, warranty, covenant, or agreement that would violate the conditions precedent to the merger (described above under Conditions to the Merger) and cannot be cured before the earlier of (1) 30 days following receipt by the breaching party of a notice of breach from the non-breaching party or (2) March 31, 2003.

by either PSCO or us if any final, nonappealable order of any governmental entity or court is in effect that prevents completion of the merger;

by either PSCO or us if our stockholders do not approve the merger proposal and the charter proposal at the special meeting;

by either PSCO or us if the merger is not completed on or before March 31, 2003;

by PSCO if we have (A) withdrawn or modified in a manner adverse to PSCO the approval or recommendation of the merger or (B) approved or recommended, or entered into any agreement with respect to, any alternative acquisition proposal or resolved to do either of the foregoing;

by PSCO if a tender offer or exchange offer is commenced and our board of directors or the special committee do not recommend against accepting such offer by our stockholders (including by taking no position or a neutral position with respect to the tender offer);

by us, if before obtaining stockholder approval, we receive a superior proposal and the special committee and our board of directors, excluding Messrs. Ross, Ticotin, and Zobler (and their respective successors), each reasonably determines in good faith to terminate the merger agreement and enter into an agreement to effect the superior proposal. This ability for us to terminate the agreement is not available if we breached our no-shop obligations (discussed above under No Solicitation of Transactions). Further, we must deliver to PSCO a written notice that we are planning on terminating the merger agreement and then must wait five business days before terminating the merger agreement. During those five business days, PSCO can revise its proposal to make a counterproposal that is at least as favorable as the alternative acquisition proposal. We agreed that during those five business days, we must cooperate with PSCO (including informing PSCO of the terms and conditions of such superior proposal and the identity of the party making the superior proposal) with the intent of enabling us and PSCO to modify the terms and conditions of the merger agreement so that the merger of PSCO and Konover may be completed. At the end of the five business day period, if the alternative acquisition proposal remains superior to PSCO s counterproposal, and the special committee and our board of directors (acting without the participation of Messrs. Ross, Ticotin, and Zobler (and their respective successors)) each continues to reasonably determine in good faith to terminate the merger agreement and enter into an agreement to effect the superior proposal, then we may terminate the merger agreement. But concurrently with terminating the merger agreement, we must pay the termination fee and reimburse certain costs (described below) by wire transfer in same-day funds and enter into a definitive acquisition, merger, or similar agreement to effect the superior proposal; or

by PSCO, if we violate our no-shop obligations.

Termination Fee and Expense Reimbursement.

If the merger agreement is terminated in certain circumstances, we must pay PSCO a $3.0 million termination fee plus all of PSCO s and its stockholders and their affiliates out-of-pocket costs and expenses. Under the terms of the co-investment agreement, Kimkon is entitled to receive the entire amount of the termination fee, but Prometheus and Kimkon will divide the out-of-pocket costs and expenses equally. These out-of-pocket costs and expenses include PSCO s due diligence investigation of us and the negotiation, execution, and performance of the merger agreement, including costs of counsel, investment bankers, actuaries, and accountants. The merger agreement caps the out-of-pocket costs and expenses we must pay at $1.0 million. Together with the $3.0 million termination fee, the termination amount could total $4.0 million. The circumstances requiring payment of this termination fee and reimbursement of costs and expenses include if the merger agreement is terminated:

- by PSCO, as a result of our board of directors withdrawing or modifying in any adverse manner to PSCO its approval or recommendation of the merger or approving or recommending to our stockholders a superior proposal;
- by us, as a result of our board of directors determining to approve or recommend a superior proposal to the merger;
- by PSCO, as a result of our breach of our no-shop obligations.

Further, we must pay the termination fee and reimburse expenses if the merger agreement is terminated:

- by PSCO (1) because we breached or failed to perform any representation, warranty, covenant, or agreement that would violate the conditions precedent to the merger (described above) and that cannot be cured before the earlier of 30 days following PSCO s notice to us of the breach or March 31, 2003, and (2) within 12 months of termination, we enter into another acquisition transaction that results in the payment to our common stockholders of an amount per share equal to or greater than $2.10; or
- by us (1) because the merger was not completed on or before March 31, 2003, and (2) on or before June 30, 2003, we enter into another acquisition transaction that results in the payment to our common stockholders of an amount per share equal to or greater than $2.10.

Amendments, Extensions, and Waivers (Article 10).

The merger agreement may be amended by action taken by the respective boards of directors of Konover and PSCO at any time before or after approval of the merger by the stockholders of Konover or PSCO. But after any such approval by our stockholders, there may be no amendment that reduces or modifies in any material respect the consideration to be received by our common stockholders without their further approval.

At any time before the merger, any party may, through a written document, (1) waive any default in the performance of any term of the merger agreement, (2) waive or extend the time for the compliance or fulfillment by the other party of any and all of its obligations under the merger agreement, and (3) waive any or all of the conditions precedent to its obligations under the merger agreement.

Co-Investment Agreement.

In connection with the execution of the merger agreement, Prometheus, Kimkon, Kimco, PSCO and the LFSRI II Funds entered into a co-investment agreement, dated June 23, 2002, which was subsequently amended on July 26, 2002. We refer to the co-investment agreement and the amendment to the co-investment agreement collectively as the co-investment agreement in this proxy statement. The co-investment agreement provides for the organization and capitalization of PSCO and the conduct of its affairs prior to the consummation of the

Table of Contents

merger. The co-investment agreement terminates automatically if the merger agreement is terminated before the merger closes.

Under the terms of the co-investment agreement, immediately prior to the consummation of the merger, and subject to the satisfaction or waiver of all of the conditions precedent in the merger agreement, Prometheus and Kimkon are each required to make certain contributions to PSCO in exchange for additional equity interests in PSCO. More specifically, in exchange for 21,115,922 shares of PSCO common stock, Prometheus is required to contribute to PSCO 16,615,922 shares of its Konover common stock and all of its rights and obligations under the contingent value right agreement. And in exchange for 16,930,685 shares of PSCO common stock Kimkon is required to contribute to PSCO cash in the amount of $35,554,438.50.

The co-investment agreement provides that Kimkon s contribution is subject to downward adjustment to the extent that holders of Konover s existing Series A convertible preferred stock elect to receive in the merger, instead of a cash payment, shares of a newly created Series A convertible preferred stock. However, since there are no shares of Series A convertible preferred stock outstanding, the adjustment provision in the co-investment agreement will not be applicable to the merger and Kimkon s cash contribution will not be reduced.

The LFSRI II Funds have guaranteed, jointly and severally, Prometheus s contribution obligations under the co-investment agreement. Similarly, Kimco has guaranteed Kimkon s cash contribution obligations under the co-investment agreement.

We are an express third party beneficiary of the contribution obligations of Prometheus and Kimkon, as well as the guarantees of the LFSRI II Funds and Kimco.

In order to maintain Konover s REIT status immediately following the merger, the co-investment agreement provides that Prometheus and Kimkon will each use their reasonable best efforts to cause PSCO to issue immediately before the merger to approximately 100 individuals up to 150 shares of redeemable preferred stock of PSCO. These shares of PSCO redeemable preferred stock will be converted in the merger into shares of the new Series B redeemable preferred stock of the surviving corporation.

The co-investment agreement provides that immediately before the merger, Prometheus and Kimkon, as stockholders of PSCO, will elect directors of PSCO who will continue as the directors of Konover following the merger. The board of directors of PSCO will appoint officers of PSCO who will continue as the officers of Konover following the merger.

The co-investment agreement prohibits Prometheus and Kimkon from transferring any of their shares of PSCO common stock or assigning any of their rights and obligations under the co-investment agreement, unless such transfer or assignment is in accordance with the provisions of the co-investment agreement. In general, the co-investment agreement permits each of Kimkon and Prometheus to transfer its shares of PSCO common stock and assign its rights and obligations to certain of its affiliates, provided that the affiliate agrees in writing to be bound by the terms and conditions of the co-investment agreement. Prometheus is also permitted to pledge its shares of PSCO common stock to a third party lender, provided that such pledge does not prevent or delay Prometheus s ability to consummate the transactions contemplated by the co-investment agreement or the merger agreement. Lastly, the co-investment agreement provides that Prometheus may transfer its shares of PSCO common stock in connection with an internal reorganization of the Prometheus Parties.

Under the terms of the co-investment agreement, for a period commencing with the signing of the co-investment agreement and terminating with the earlier of consummation of the merger or the termination of the merger agreement in accordance with its terms, Prometheus and its affiliates (other than Konover and our subsidiaries) are prohibited from:

- soliciting, initiating, facilitating or encouraging any proposal for an alternative acquisition transaction involving Konover;
- entering into any agreement with respect to such an alternative acquisition transaction; or
- negotiating with or furnishing information to any third party regarding such an alternative acquisition transaction.

Furthermore, pursuant to the co-investment agreement, until the earlier of the merger or June 23, 2003, Prometheus and its affiliates (other than Konover and our subsidiaries) are prohibited from taking any action directly or indirectly to participate in:

- any transaction or series of transactions subject to Rule 13e-3 of the Exchange Act involving Konover or
- any transaction or series of related transactions in which all of the following occur:
  - Prometheus enters into any joint venture, partnership, stockholders agreement, or similar arrangement with any person (including such person s affiliates);
  - such person (including its affiliates) makes a direct or indirect investment of $11,000,000.00 or more in us or any of our subsidiaries;
  - we or any of our subsidiaries enters into an agreement or arrangement pursuant to which such person (or any of such person s affiliates) assumes responsibility for operating or managing a majority of our properties or assets; and
  - consideration is paid to our common stockholders pursuant to a business combination, self-tender offer, distribution, dividend, or otherwise, and such consideration is not paid on a pro rata basis to Prometheus, on the one hand, and the nonaffiliated common stockholders of Konover, on the other hand.

However, the restrictions described above are not applicable to any transaction subject to Rule 13e-3 of the Exchange Act involving Konover which results in Prometheus or any of its affiliates owning 15% or less of our stock.

The co-investment agreement also provides that if we must pay the termination fee and reimburse PSCO for expenses, then Kimkon will be entitled to 100% of the termination fee and 50% of any reimbursed expenses. Accordingly, Prometheus would be entitled to receive the remaining 50% of such reimbursed expenses and none of the termination fee.

The co-investment agreement contains customary representations and warranties by Prometheus, Kimkon, Kimco, and the LFSRI II Funds. In addition, Prometheus and Kimkon agreed to indemnify PSCO, each other, and each of their respective directors, officers, employees, and representatives from losses and claims resulting from securities laws violations and breaches of representations, warranties, and covenants made in the agreement. There is a maximum limit on the amount payable under the indemnification with respect to breaches of representations and warranties.

The above description of the co-investment agreement is not complete. The full text of the co-investment agreement, as amended to date, is attached as Appendices D1 and D2 to this proxy statement.

Table of Contents

Voting Agreement.

Pursuant to the voting agreement, dated as of June 23, 2002, between Konover, Prometheus, and Kimkon, Prometheus agreed that at any meeting of our stockholders, or in connection with any vote or consent of our stockholders, to approve the merger proposal and the charter proposal, Prometheus will vote all its shares of Konover common stock in favor of the approval of the merger proposal and the charter proposal and against any action or agreement that would compete with, impede, or interfere with the merger. On the record date, Prometheus owned 21,052,631 shares of our common stock, representing approximately 66% of our outstanding common stock. The voting agreement terminates upon the earlier of (a) the termination of the merger agreement or (b) the merger.

Prometheus agreed that while the voting agreement is in effect it will not:

(1) dispose of, or agree to dispose of, any of its shares of Konover common stock (except to contribute a portion of its shares to PSCO as previously discussed or to dispose of a portion of its shares to a person that agrees to be bound in writing by the voting agreement s transfer restrictions);
&nb