

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2004

OR

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

For the transition period from _____ to _____.

Commission File Number 1-10272

ARCHSTONE-SMITH OPERATING TRUST

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

74-6056896
(I.R.S. employer
identification no.)

9200 E Panorama Circle, Suite 400
Englewood, Colorado 80112
(Address of principal executive offices and zip code)

(303) 708-5959
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing for the past 90 days.

Yes ☒ No ☐

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

At April 30, 2004, there were approximately 24,999,000 Class A-1 and Class B Common Units outstanding held by non-affiliates.

Table of Contents

<u>Item</u>	<u>Description</u>	<u>Page Number</u>
PART I		
1.	Financial Statements	
	Condensed Consolidated Balance Sheets – March 31, 2004 (unaudited) and December 31, 2003	3
	Condensed Consolidated Statements of Earnings – Three months ended March 31, 2004 and 2003 (unaudited)	4
	Condensed Consolidated Statement of Unitholders’ Equity, Other Common Unitholders’ Interest and Comprehensive Income – Three months ended March 31, 2004 (unaudited)	5
	Condensed Consolidated Statements of Cash Flows – Three months ended March 31, 2004 and 2003 (unaudited)	6
	Notes to Condensed Consolidated Financial Statements (unaudited)	7
	Independent Accountants’ Review Report	18
2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
3.	Quantitative and Qualitative Disclosures About Market Risk	30
4.	Controls and Procedures	30
PART II		
1.	Legal Proceedings	31
2.	Changes in Securities, Use of Proceeds and Issuer Purchases of Equity	32
6.	Exhibits and Reports on Form 8-K	32

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

Archstone-Smith Operating Trust

Condensed Consolidated Balance Sheets

(In thousands, except unit data)

<u>ASSETS</u>	March 31, 2004	December 31, 2003
	(Unaudited)	
Real estate.....	\$ 8,708,155	\$ 8,583,056
Real estate – held for sale	532,619	416,124
Less accumulated depreciation	684,701	648,982
	8,556,073	8,350,198
Investments in and advances to unconsolidated entities	91,256	86,367
Net investments	8,647,329	8,436,565
Cash and cash equivalents	5,706	5,230
Restricted cash in tax-deferred exchange escrow	113,769	180,920
Other assets	246,177	298,980
Total assets	<u>\$ 9,012,981</u>	<u>\$ 8,921,695</u>
 <u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Unsecured credit facilities	\$ 204,043	\$ 103,790
Long-Term Unsecured Debt.....	1,830,657	1,871,965
Mortgages payable	1,929,769	1,872,787
Mortgages payable – held for sale.....	54,738	54,838
Distribution payable.....	1,584	1,593
Accounts payable, accrued expenses and other liabilities.....	256,976	279,619
Total liabilities.....	<u>4,277,767</u>	<u>4,184,592</u>
Minority interest	2,158	11,510
Other common unitholders’ interest, at redemption value (A-1 and B Common Units: 25,020,280 in 2004 and 25,301,069 in 2003).....	<u>738,348</u>	<u>707,924</u>
Unitholders’ equity:		
Convertible Preferred Units	50,000	50,000
Perpetual Preferred Units	160,120	160,120
Common unitholders’ equity (A-2 Common Units: 195,767,911 in 2004 and 194,762,263 in 2003)	3,779,090	3,793,314
Accumulated other comprehensive earnings	5,498	14,235
Total unitholders’ equity	<u>3,994,708</u>	<u>4,017,669</u>
Total liabilities and equity	<u>\$ 9,012,981</u>	<u>\$ 8,921,695</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Archstone-Smith Operating Trust

Condensed Consolidated Statements of Earnings

(In thousands, except per unit amounts)
(Unaudited)

	Three Months Ended March 31,	
	2004	2003
Revenues:		
Rental revenues	\$ 222,442	\$ 203,970
Other income	3,697	6,316
	<u>226,139</u>	<u>210,286</u>
Expenses:		
Rental expenses	57,554	51,337
Real estate taxes	22,583	20,168
Depreciation on real estate investments	52,003	42,404
Interest expense	43,840	38,482
General and administrative expenses	12,433	12,867
Other expenses	1,336	4,208
	<u>189,749</u>	<u>169,466</u>
Earnings from operations	36,390	40,820
Minority interest	352	81
Gains on sale of marketable equity securities	10,510	–
Income from unconsolidated entities	5,276	455
Earnings before discontinued operations	52,528	41,356
Plus: earnings from discontinued apartment communities	61,434	56,511
Net earnings	113,962	97,867
Less: Preferred Unit distributions	4,447	8,358
Net earnings attributable to Common Units – Basic	<u>\$ 109,515</u>	<u>\$ 89,509</u>
Weighted average Common Units outstanding – Basic	220,080	206,886
Weighted average Common Units outstanding – Diluted	<u>223,619</u>	<u>219,054</u>
Earnings per Common Unit – Basic:		
Earnings before discontinued operations	\$ 0.22	\$ 0.16
Discontinued operations, net	0.28	0.27
Net earnings	<u>\$ 0.50</u>	<u>\$ 0.43</u>
Earnings per Common Unit – Diluted:		
Earnings before discontinued operations	\$ 0.21	\$ 0.16
Discontinued operations, net	0.28	0.27
Net earnings	<u>\$ 0.49</u>	<u>\$ 0.43</u>
Distributions paid per Common Unit	<u>\$ 0.4300</u>	<u>\$ 0.4275</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Archstone-Smith Operating Trust

Condensed Consolidated Statement of Unitholders' Equity, Other Common Unitholders' Interest and Comprehensive Income

Three Months Ended March 31, 2004

(In thousands)
(Unaudited)

	Convertible Preferred Units at Aggregate Liquidation Preference	Perpetual Preferred Units at Aggregate Liquidation Preference	Common Unitholder's Equity	Accumulated Other Comprehensive Earnings	Total Unitholders' Equity	Other Common Unitholders' Interest	Total
Balances at December 31, 2003.....	\$ 50,000	\$ 160,120	\$ 3,793,314	\$ 14,235	\$ 4,017,669	\$ 707,924	\$ 4,725,593
Comprehensive income:							
Net earnings.....	—	—	100,102	—	100,102	13,860	113,962
Change in fair value of cash flow hedges	—	—	—	128	128	—	128
Change in fair value of marketable securities	—	—	—	(8,865)	(8,865)	—	(8,865)
Comprehensive income attributable to Common Units.....							<u>105,225</u>
Preferred Unit distributions	—	—	(4,447)	—	(4,447)	—	(4,447)
UPREIT Preferred Unit distributions	—	—	1,316	—	1,316	(1,316)	—
Common Unit distributions.....	—	—	(85,107)	—	(85,107)	(10,759)	(95,866)
A-1 Common Units converted into A-2 Common Units.....	—	—	13,114	—	13,114	(13,114)	—
A-2 Common Unit repurchases	—	—	(31,917)	—	(31,917)	—	(31,917)
Exercise of options.....	—	—	23,249	—	23,249	—	23,249
Issuance of A-1 Common Units.....	—	—	—	—	—	10,788	10,788
Issuance of A-2 Common Units.....	—	—	4,502	—	4,502	—	4,502
Adjustment to redemption value.....	—	—	(30,965)	—	(30,965)	30,965	—
Other, net.....	—	—	(4,071)	—	(4,071)	—	(4,071)
Balances at March 31, 2004.....	<u>\$ 50,000</u>	<u>\$ 160,120</u>	<u>\$ 3,779,090</u>	<u>\$ 5,498</u>	<u>\$ 3,994,708</u>	<u>\$ 738,348</u>	<u>\$ 4,733,056</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Archstone-Smith Operating Trust

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2004	2003
Operating activities:		
Net earnings.....	\$ 113,962	\$ 97,867
Adjustments to reconcile net earnings to net cash flow provided by operating activities:		
Depreciation and amortization.....	55,382	53,612
Gains on dispositions of depreciated real estate, net.....	(62,496)	(52,347)
Gains on sale of marketable equity securities.....	(10,510)	—
Provision for possible loss on real estate investments.....	—	3,714
Minority interest.....	(352)	(81)
Equity in earnings from unconsolidated entities.....	(5,276)	(455)
Change in other assets.....	2,470	(3,931)
Change in accounts payable, accrued expenses and other liabilities.....	(34,582)	(24,756)
Other, net.....	(3,623)	(4,181)
Net cash flow provided by operating activities.....	<u>54,975</u>	<u>69,442</u>
Investing activities:		
Real estate investments, net.....	(304,361)	(99,756)
Advances to (distributions from) to unconsolidated entities.....	(1,231)	3,906
Proceeds from dispositions, net of closing costs.....	194,382	164,628
Change in tax-deferred exchange escrow.....	67,151	(48)
Other, net.....	55,520	(34,374)
Net cash flow provided by investing activities.....	<u>11,461</u>	<u>34,356</u>
Financing activities:		
Payments on Long-Term Unsecured Debt.....	(40,450)	(18,750)
Principal prepayment of mortgages payable, including prepayment penalties.....	(27,788)	(49,101)
Regularly scheduled principal payments on mortgages payable.....	(3,344)	(2,690)
Proceeds from mortgage notes payable.....	16,076	21,930
Proceeds from unsecured credit facilities, net.....	100,253	44,032
Proceeds from Common Units issued under DRIP and employee stock options.....	23,249	20,544
Repurchase of Common Units and Preferred Units.....	(31,917)	(13,361)
Cash distributions paid on Common Units.....	(96,066)	(88,224)
Cash distributions paid on Preferred Units.....	(4,447)	(8,358)
Other, net.....	(1,526)	(8,625)
Net cash flow used in financing activities.....	<u>(65,960)</u>	<u>(102,603)</u>
Net change in cash and cash equivalents.....	476	1,195
Cash and cash equivalents at beginning of period.....	5,230	12,846
Cash and cash equivalents at end of period.....	<u>\$ 5,706</u>	<u>\$ 14,041</u>
Significant non-cash investing and financing activities:		
A-1 Common Units issued in exchange for real estate.....	\$ 10,788	\$ 33,355
A-1 Common Units converted to A-2 Common Units.....	13,114	15,632
Assumption of mortgages payable upon purchase of apartment communities.....	74,900	—
A-2 Common Units issued in exchange for real estate.....	4,502	—

The accompanying notes are an integral part of these condensed consolidated financial statements.

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements

March 31, 2004 and 2003

(Unaudited)

(1) Description of the Business and Summary of Significant Accounting Policies

Business

Archstone-Smith is structured as an UPREIT under which substantially all property ownership and business operations are conducted through the Operating Trust. Archstone-Smith is our sole trustee and owns approximately 88.7% of the Operating Trust's outstanding Common Units; the remaining 11.3% are owned by minority interest holders. As used herein, "we", "our" and the "company" refers to the Operating Trust and Archstone-Smith, collectively, except where the context otherwise requires. Archstone-Smith is an equity REIT organized under the laws of the State of Maryland. We focus on creating value for our shareholders by acquiring, developing and operating apartments in markets characterized by: (i) protected locations with limited land on which to build new housing; (ii) expensive single-family home prices; and (iii) a strong, diversified economic base and job growth potential.

Interim Financial Reporting

The accompanying condensed consolidated financial statements of the Operating Trust are unaudited and certain information and footnote disclosures normally included in financial statements have been omitted. While management believes that the disclosures presented are adequate for interim reporting, these interim financial statements should be read in conjunction with the financial statements and notes included in the Operating Trust's 2003 Form 10-K. See the glossary in our 2003 Form 10-K for all defined terms not defined herein.

In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary for a fair presentation of the Operating Trust's financial statements for the interim periods presented. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results to be expected for the entire year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and the related notes. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period they are determined to be necessary.

Moisture Infiltration and Resulting Mold Remediation Costs

We estimate and accrue costs related to the correction of moisture infiltration and related mold remediation when we anticipate incurring such remediation costs because of the assertion of a legal claim or threatened litigation. When we incur remediation costs at our own discretion, the cost is recognized as incurred. Costs of addressing moisture infiltration and resulting mold remediation issues are only capitalized, subject to recoverability, when it is determined by management that such costs also extend the life, increase the capacity, or improve the safety or efficiency of the property relative to when the community was originally constructed or acquired, if later. All other related costs are expensed.

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements – (Continued)

Legal Fees

We generally recognize legal expenses as incurred; however, if such fees are related to the accrual for an estimated legal settlement, we accrue for the related incurred and anticipated legal fees at the same time we accrue the cost of settlement.

Real Estate and Depreciation

We allocate the cost of newly acquired properties between net tangible and identifiable intangible assets. The primary intangible asset associated with an apartment community acquisition is the value of the existing lease agreements. When allocating cost to an acquired property, we estimate the value of land, building and fixtures assuming the property is vacant, and then allocate costs to the intangible value of the existing lease agreements. We depreciate the building and fixtures based on the expected useful life of the asset and amortize the intangible value of the lease agreements over the average remaining life of the existing leases.

Stock-Based Compensation

As of March 31, 2004, the company has one stock-based employee compensation plan. Effective January 1, 2003, we adopted the fair value recognition provision of FASB Statement No. 123, "*Accounting for Stock-Based Compensation*," prospectively to all employee awards granted, modified or settled after January 1, 2003, which results in expensing of options. During the three months ended March 31, 2004, we granted approximately 300,000 Restricted Share Units and 643,000 stock options. For employee awards granted prior to January 1, 2003, we accounted for this plan under the recognition and measurement provisions of APB Opinion No. 25, "*Accounting for Stock Issued to Employees*," and related Interpretations. With respect to options granted under the plan prior to January 1, 2003, no stock-based employee compensation expense is reflected in the accompanying condensed consolidated statements of earnings, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net earnings and earnings per unit if the fair value based method had been applied to all outstanding and unvested awards in each period (dollar amounts in thousands, except per share amounts):

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements – (Continued)

	Three Months Ended March 31,	
	2004	2003
Net earnings attributable to Common Units – Basic.....	\$ 109,515	\$ 89,509
Add: Stock-based employee compensation expense included in reported net earnings.....	75	–
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(508)	(505)
Pro forma net earnings attributable to Common Units – Basic.....	<u>\$ 109,082</u>	<u>\$ 89,004</u>
Net earnings per Common Unit:		
Basic – as reported.....	<u>\$ 0.50</u>	<u>\$ 0.43</u>
Basic – pro forma.....	<u>\$ 0.50</u>	<u>\$ 0.43</u>
Diluted – as reported.....	<u>\$ 0.49</u>	<u>\$ 0.43</u>
Diluted – pro forma.....	<u>\$ 0.49</u>	<u>\$ 0.43</u>
Weighted average risk-free interest rate	3.48%	3.54%
Weighted average dividend yield	6.92%	6.74%
Weighted average volatility.....	15.33%	19.58%
Weighted average expected option life.....	5.0 years	5.0 years

Reclassifications

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

Comprehensive Income

Comprehensive income, which is defined as net earnings and all other non-owner changes in equity, is displayed in the accompanying Statements of Shareholder's Equity and Comprehensive Income. Other comprehensive income reflects unrealized holding gains and losses on the available-for-sale investments and changes in the fair value of effective cash flow hedges.

Our accumulated other comprehensive income for the quarter ended March 31, 2004 is as follows (in thousands):

	Net Unrealized Gains on Marketable Securities	Cash Flow Hedges	Accumulated Other Comprehensive Income
Balance at December 31, 2003.....	\$ 23,808	\$ (9,573)	\$ 14,235
Net unrealized holding gains arising during period .	1,645	–	1,645
Change in fair value of cash flow hedges	–	128	128
Less: reclassification adjustments for net gains realized in net gain	(10,510)	–	(10,510)
Balance at March 31, 2004.....	<u>\$ 14,943</u>	<u>\$ (9,445)</u>	<u>\$ 5,498</u>

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements – (Continued)

Per Unit Data

Following is a reconciliation of basic net earnings attributable to Common Units to diluted net earnings per Common Unit for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2004	2003
Reconciliation of numerator between basic and diluted net earnings per Common Unit ⁽¹⁾ :		
Net earnings attributable to Common Units – Basic	\$109,515	\$89,509
Dividends on Convertible Preferred Units	1,104	5,011
Net earnings attributable to Common Units – Diluted	<u>\$110,619</u>	<u>\$94,520</u>
Reconciliation of denominator between basic and diluted net earnings per Common Unit ⁽¹⁾ :		
Weighted average number of Common Units outstanding – Basic	220,080	206,886
Assumed conversion of Convertible Preferred Units into Common Units	2,583	11,740
Assumed exercise of options	956	428
Weighted average number of Common Units outstanding – Diluted	<u>223,619</u>	<u>219,054</u>

(1) Excludes the impact of potentially dilutive equity securities during periods in which they are anti-dilutive.

(2) Real Estate

Investments in Real Estate

Investments in real estate (at cost including held for sale) were as follows (dollar amounts in thousands):

	March 31, 2004		December 31, 2003	
	Investment	Units ⁽¹⁾	Investment	Units ⁽¹⁾
Operating Trust apartment communities:				
Operating communities	\$ 8,250,405	63,839	\$ 8,067,075	63,848
Communities under construction	310,723	2,487	301,634	2,607
Development communities In Planning:				
Owned	70,074	1,533	95,911	2,633
Under control ⁽²⁾	–	418	–	112
Total development communities In Planning	<u>70,074</u>	<u>1,951</u>	<u>95,911</u>	<u>2,745</u>
Total Operating Trust apartment communities	<u>8,631,202</u>	<u>68,277</u>	<u>8,464,620</u>	<u>69,200</u>
Ameriton apartment communities	550,511	6,289	494,338	5,646
Land	28,482		9,648	
Other	30,579		30,574	
Total real estate	<u>\$ 9,240,774</u>	<u>74,566</u>	<u>\$ 8,999,180</u>	<u>74,846</u>

(1) Unit information is based on management's estimates and has not been audited or reviewed by our independent auditors.

(2) Our investment as of March 31, 2004 and December 31, 2003 for developments Under Control was \$4.2 million and \$1.1 million, respectively, and is reflected on the "Other assets" caption of our Balance Sheets.

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements – (Continued)

The change in investments in real estate, at cost, consisted of the following (in thousands):

Balance at December 31, 2003	\$ 8,999,180
Acquisition-related expenditures	318,062
Redevelopment expenditures	6,306
Recurring capital expenditures	7,681
Development expenditures, excluding land acquisitions	69,637
Dispositions	(150,187)
Net apartment community activity	9,250,679
Change in other real estate assets	(9,905)
Balance at March 31, 2004	<u>\$ 9,240,774</u>

At March 31, 2004 we had unfunded contractual commitments related to real estate investment activities aggregating approximately \$430.8 million, of which \$419.5 million related to communities under construction.

(3) Discontinued Operations

Consistent with our capital recycling program, we had nine operating apartment communities, representing 5,163 units, classified as held for sale under the provisions of SFAS 144, at March 31, 2004. Accordingly, we have classified the operating earnings from these nine properties within discontinued operations for the three months ended March 31, 2004 and 2003. During the three months ended March 31, 2004, we sold five operating communities. The operating results of these five communities and the related gain/loss on sale are also included in discontinued operations for both 2004 and 2003. During the twelve months ended December 31, 2003 we sold 48 operating communities. The operating results of these 48 operating communities and the related gain/loss on the sale are also included in discontinued operations for the three months ended March 31, 2003. The following is a summary of earnings from discontinued operations (in thousands):

	Three Months Ended March 31,	
	2004	2003
Rental revenues	\$ 16,453	\$ 60,059
Rental expenses	(6,274)	(18,845)
Real estate taxes	(2,233)	(6,685)
Depreciation on real estate investments	(1,768)	(9,525)
Interest expense ⁽¹⁾	(6,332)	(16,968)
Provision for possible loss on real estate investments	—	(3,714)
Debt extinguishment costs related to dispositions	(908)	(158)
Gains on dispositions of real estate investments, net	62,496	52,347
Earnings from discontinued apartment communities	<u>\$ 61,434</u>	<u>\$ 56,511</u>

(1) The portion of interest expense included in discontinued operations that is allocated to properties based on the company's leverage ratio was \$5.3 million and \$13.4 million for the three months ended March 31, 2004 and 2003, respectively.

(4) Investments in and Advances to Unconsolidated Entities

Real Estate Joint Ventures

We have investments in entities that we account for using the equity method. At March 31, 2004, the investment balance consists of \$52.3 million in our joint ventures and \$39.0 million in Ameriton joint ventures. At December 31, 2003, the investment balance consists of \$42.9 million in our joint ventures and \$43.5 million in Ameriton joint ventures.

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements – (Continued)

(5) Borrowings

Unsecured Credit Facilities

The following table summarizes our \$600 million unsecured revolving credit facility borrowings (in thousands, except for percentages):

	As of and for the Three Months Ended March 31, 2004	As of and for the Year Ended December 31, 2003
Total unsecured revolving credit facility	\$ 600,000	\$ 600,000
Borrowings outstanding at end of period.....	150,000	97,000
Outstanding letters of credit under this facility.....	1,050	1,050
Weighted average daily borrowings	63,022	231,354
Maximum borrowings outstanding during the period	150,000	511,500
Weighted average daily nominal interest rate.....	1.56%	1.95%
Weighted average daily effective interest rate.....	2.51%	2.55%

We also have a short-term unsecured borrowing agreement with JPMorgan Chase Bank, which provides for maximum borrowings of \$100 million. The agreement bears interest at an overnight rate agreed to at the time of borrowing and ranged from 1.60% to 1.65% during the three months ended March 31, 2004. There were \$54.0 million and \$6.8 million of borrowings outstanding under this agreement at March 31, 2004 and December 31, 2003, respectively.

Long-Term Unsecured Debt

Following is a summary of our Long-Term Unsecured Debt (dollar amounts in thousands):

Type of Debt	Coupon Rate ⁽¹⁾	Effective Interest Rate ⁽²⁾	Balance at March 31, 2004	Balance at December 31, 2003	Average Remaining Life (Years)
Long-term unsecured senior notes ..	6.33%	6.52%	\$ 1,752,339	\$ 1,771,167	5.2
Unsecured tax-exempt bonds.....	1.56%	1.81%	78,318	100,798	19.2
Total/average	<u>6.13%</u>	<u>6.32%</u>	<u>\$ 1,830,657</u>	<u>\$ 1,871,965</u>	<u>5.8</u>

(1) Represents a fixed rate for the long-term unsecured notes and a variable rate for the unsecured tax-exempt bonds.

(2) Includes the effect of fair value hedges, loan cost amortization and other ongoing fees and expenses, where applicable.

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements – (Continued)

Mortgages payable

Our mortgages payable generally feature either monthly interest and principal payments or monthly interest-only payments with balloon payments due at maturity. Following is a summary of our mortgages payable including debt on assets held for sale (dollar amounts in thousands):

Type of Mortgage	Effective Interest Rate ⁽¹⁾	Principal Balance ⁽²⁾ at		Average Remaining Life (Years)
		March 31, 2004	December 31, 2003	
Conventional fixed rate ⁽³⁾	6.45%	\$ 1,478,490	\$ 1,511,277	5.8
Tax-exempt floating rate	1.88%	391,185	317,351	20.1
Construction loans	4.31%	72,204	56,129	1.2
Conventional floating rate	2.70%	21,705	21,705	4.6
Other	4.97%	20,923	21,163	19.3
Total/average mortgage debt	5.42%	\$ 1,984,507	\$ 1,927,625	8.6

(1) Includes the effect of fair value hedges, credit enhancement fees, the amortization of fair market value purchase adjustment, and other related costs, where applicable as of March 31, 2004.

(2) Includes net fair market value adjustment recorded in connection with the Smith Merger of \$55.6 million and \$58.5 million at March 31, 2004 and December 31, 2003, respectively.

(3) Includes a long-term secured debt agreement with Fannie Mae. The Fannie Mae secured debt matures on dates ranging from January 2006 to July 2009, although we have the option to extend the term of any portion of the debt for up to an additional 30-year period at any time, subject to Fannie Mae's approval.

The change in mortgages payable, including properties classified as held for sale, during the three months ended March 31, 2004 consisted of the following (in thousands):

Balance at December 31, 2003	\$ 1,927,625
Regularly scheduled principal amortization	(3,344)
Prepayments, final maturities and other	(30,750)
Mortgage assumptions related to property acquisitions	74,900
Proceeds from mortgage notes payable	16,076
Balance at March 31, 2004	<u>\$ 1,984,507</u>

Other

The book value of total assets pledged as collateral for mortgage loans and other obligations at March 31, 2004 and December 31, 2003 is \$3.9 billion and \$3.8 billion, respectively. Our debt instruments generally contain certain covenants common to the type of facility or borrowing, including financial covenants establishing minimum debt service coverage ratios and maximum leverage ratios. We were in compliance with all financial covenants pertaining to our debt instruments during the three months ended March 31, 2004.

For the three months ended March 31, 2004 and 2003, the total interest paid on all outstanding debt was \$73.8 million and \$77.6 million, respectively. We capitalize interest incurred during the construction period as part of the cost of apartment communities under development. Interest capitalized during the three months ended March 31, 2004 and 2003 was \$5.9 million for both periods presented.

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements – (Continued)

(6) Distributions to Unitholders

The following table summarizes the quarterly cash distributions paid per unit on Common and Preferred Units during the three months ended March 31, 2004 and the annualized distributions we expect to pay for 2004:

	Quarterly Cash Distributions Per Unit	Annualized Cash Distributions Per Unit
Common Units and A-1 Units.....	\$ 0.4300	\$ 1.72
Series D Preferred Units	0.5475	2.19
Series E Preferred Units	0.5225	2.09
Series F Preferred Units	0.5075	2.03
Series G Preferred Units.....	0.5400	2.16
Series I Preferred Units ⁽¹⁾	1,915	7,660
Series K Preferred Units	0.8500	3.40
Series L Preferred Units	0.8500	3.40

(1) Series I Preferred Units have a par value of \$100,000 per share.

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements – (Continued)

(7) Segment Data

We define our garden communities and high-rise properties each as individual operating segments. We have determined that each of our garden communities and each of our high-rise properties have similar economic characteristics and also meet the other GAAP criteria, which permit the garden communities and high-rise properties to be aggregated into two reportable segments. Net Operating Income (NOI) is defined as rental revenues less rental expenses and real estate taxes. We rely on NOI for purposes of making decisions about resource allocations and assessing segment performance. We also believe NOI is a valuable means of comparing year-to-year property performance.

Following are reconciliations, which exclude the amounts classified as discontinued operations, of each reportable segment's (i) revenues to consolidated revenues; (ii) NOI to consolidated earnings from operations; and (iii) assets to consolidated assets, for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2004	2003
Reportable apartment communities segment revenues:		
Same-Store:		
Garden communities.....	\$ 121,121	\$ 123,049
High-rise properties.....	74,600	74,491
Non Same-Store:		
Garden communities.....	19,458	3,587
High-rise properties.....	6,598	2,143
Other non-reportable operating segment revenues.....	4,632	7,016
Total segment and consolidated revenues.....	<u>\$ 226,139</u>	<u>\$ 210,286</u>
	Three Months Ended March 31,	
	2004	2003
Reportable apartment communities segment NOI:		
Garden communities.....	\$ 90,653	\$ 84,929
High-rise properties.....	51,122	46,981
Other non-reportable operating segment NOI.....	530	555
Total segment and consolidated NOI.....	<u>142,305</u>	<u>132,465</u>
Reconciling items:		
Other income.....	3,697	6,316
Depreciation on real estate investments.....	(52,003)	(42,404)
Interest expense.....	(43,840)	(38,482)
General and administrative expenses.....	(12,433)	(12,867)
Other expenses.....	(1,336)	(4,208)
Consolidated earnings from operations.....	<u>\$ 36,390</u>	<u>\$ 40,820</u>

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements – (Continued)

	March 31, 2004	December 31, 2003
Reportable operating communities segment assets:		
Same-Store:		
Garden communities	\$ 3,363,157	\$ 3,586,989
High-rise properties	2,751,692	2,466,129
Non Same-Store:		
Garden communities	1,491,153	1,195,470
High-rise properties	882,297	1,072,039
Other non-reportable operating segment assets	67,774	29,571
Total segment assets	<u>8,556,073</u>	<u>8,350,198</u>
Reconciling items:		
Investment in and advances to unconsolidated entities	91,256	86,367
Cash and cash equivalents	5,706	5,230
Restricted cash in tax-deferred exchange escrow	113,769	180,920
Other assets	246,177	298,980
Consolidated total assets	<u>\$ 9,012,981</u>	<u>\$ 8,921,695</u>

Total capital expenditures for garden communities were \$5.6 million and \$6.0 million for the three months ended March 31, 2004 and 2003, respectively. Total capital expenditures for high-rise properties were \$8.7 million and \$10.3 million for the three months ended March 31, 2004 and 2003, respectively.

(8) Litigation and Contingencies

We are party to alleged moisture infiltration and resulting mold lawsuits at various apartment properties. We have negotiated a settlement with the named plaintiffs in certain of these lawsuits and have recorded accruals related to these claims based on estimated legal fees associated with known and anticipated costs for our counsel and plaintiffs' counsel. Additionally, we have estimated costs related to the negotiated settlements, additional resident property repair and replacement costs and temporary resident relocation expenses. It is possible that these estimates could increase or decrease as better information becomes available. Our accruals represent management's best estimate of the probable and reasonably estimable costs and are based, in part, on the status of settlement discussions, estimates obtained from third-party contractors and actual costs incurred to date. Not all plaintiffs have accepted the negotiated settlement, and further court proceedings and additional legal fees and damages may be required to fully resolve these claims.

We are aggressively pursuing recovery of a significant portion of these costs from our insurance carriers. During the quarter ended March 31, 2004, we received \$5.1 million in insurance recoveries pertaining to ongoing moisture infiltration and resulting mold litigation. Of this amount, approximately \$1.3 million was recorded to other income as it pertains to legal and professional fees previously expensed; the remaining \$3.8 million was a reduction of previously capitalized costs. We are still in discussions with our insurance providers and therefore we have not recorded an estimate for future insurance recoveries. In addition, we are continuing to pursue potential recoveries from third parties who we believe bear responsibility for a considerable portion of the costs we have incurred. We cannot make assurances that we will obtain these recoveries or that our ultimate liability associated with these claims will not be material to our results of operations.

We are a party to various other claims and routine litigation arising in the ordinary course of business. We do not believe that the results of any such claims or litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position or results of operations.

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements – (Concluded)

(9) Derivatives and Hedging Activities

We are exposed to the impact of interest rate changes and will occasionally utilize interest rate swaps and interest rate caps as hedges with the objective of lowering our overall borrowing costs. These derivatives are designated as either cash flow or fair value hedges. We are also exposed to price risk associated with changes in the fair value of certain equity securities. We have entered into forward sale agreements to protect against a reduction in the fair value of these securities. We have designated such forward sale agreements as fair value hedges. We do not use these derivatives for trading or other speculative purposes. Further, as a matter of policy, we only enter into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, we have not, nor do we expect to sustain a material loss from the use of these hedging instruments.

We formally assess, both at inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. We measure hedge effectiveness by comparing the changes in the fair value or cash flows of the derivative instrument with the changes in the fair value or cash flows of the hedged item. We exclude the hedging instrument's time value component when assessing hedge effectiveness. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, we will discontinue hedge accounting prospectively.

To determine the fair values of derivative and other financial instruments, we use a variety of methods and assumptions that are based on market value conditions and risks existing at each balance sheet date. These methods and assumptions include standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost. All methods of assessing fair value result in a general approximation of value, and therefore, are not necessarily indicative of the actual amounts that we could realize upon disposition. During 2003, we entered into forward sale agreements with an aggregate notional amount, which represents the fair value of the underlying marketable securities, of approximately \$128.5 million and an aggregate fair value of the forward sale agreements of approximately \$486,000. As of March 31, 2004 the remaining forward sale agreements had an aggregate notional value of \$81.7 million and an aggregate fair value of \$76,000. During the three months ended March 31, 2004, we settled one of the forward sales agreements for 1.0 million shares and sold 308,200 shares of marketable securities, which were not subject to forward sales agreements, resulting in an aggregate gain of approximately \$10.5 million. The total net proceeds from the sale were \$61.4 million, with the marketable securities basis determined using the average costs of the securities. Settlement of the remaining forward sale agreements will result in additional 2004 gains of approximately \$14.9 million.

(10) Subsequent Events

In April 2004, the Operating Trust filed a shelf registration statement on Form S-3 to register an additional \$450 million (for a total of \$1 billion) in unsecured debt securities. This registration statement was declared effective in April 2004.

In April 2004, Archstone-Smith filed two registration statements on Form S-3 registering 156,332 Common Shares issued in connection with a property acquisition and registering 2,521,236 Common Shares to be issued upon redemption of certain A-1 Common Units. These registration statements were declared effective in April and May of 2004, respectively.

In April 2004, the Board of Trustees increased the total authorization for unit repurchase of \$255 million. The company has approximately \$55 million of remaining capacity in our currently authorized unit repurchase program.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Trustee and Unitholders
Archstone-Smith Operating Trust:

We have reviewed the accompanying condensed consolidated balance sheet of Archstone-Smith Operating Trust and subsidiaries as of March 31, 2004, and the related condensed consolidated statements of earnings for the three month periods ended March 31, 2004 and 2003, the condensed consolidated statement of unitholders' equity, other common unitholders' interest and comprehensive income for the three month period ended March 31, 2004 and the condensed consolidated statements of cash flows for the three month periods ended March 31, 2004 and 2003. These condensed consolidated financial statements are the responsibility of Archstone-Smith Operating Trust's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Archstone-Smith Operating Trust as of December 31, 2003, and the related consolidated statements of earnings, unitholders' equity, other common unitholders' interest and comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated February 9, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG LLP

Denver, Colorado
April 23, 2004

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with Archstone-Smith Operating Trust's 2003 Form 10-K as well as the financial statements and notes included in Item 1 of this report.

Forward-Looking Statements

Certain statements in this Form 10-Q that are not historical facts are "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our current expectations, beliefs, assumptions, estimates and projections about the industry and markets in which we operate. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. Information concerning expected investment balances, expected funding sources, planned investments, forecasted dates and revenue and expense growth assumptions are examples of forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. Therefore, actual outcomes and results may differ materially from what is expressed, forecasted or implied in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Our operating results depend primarily on income from apartment communities, which is substantially influenced by supply and demand for apartment units, operating expense levels, property level operations and the pace and price at which we can develop, acquire or dispose of apartment communities. Capital and credit market conditions, which affect our cost of capital, also influence operating results. See Archstone-Smith Operating Trust's 2003 Form 10-K "Item 1. Business" for a more complete discussion of risk factors that could impact our future financial performance.

The Company

We are engaged primarily in the operation, development, redevelopment, acquisition, management and long-term ownership of apartment communities throughout the United States. Archstone-Smith is structured as an UPREIT, under which all property ownership and business operations are conducted through the Operating Trust and our subsidiaries and affiliates. Archstone-Smith is our sole trustee and owns 88.7% of our Common Units at March 31, 2004.

Results of Operations

Overview

In conjunction with our capital recycling strategy, rental revenues and rental expenses, including real estate taxes, will fluctuate based upon the timing and volume of dispositions, acquisitions and development lease-ups. Accordingly, our results are not only driven by the performance of our operating portfolio, but also by gains/losses from the disposition of real estate, the corresponding loss of ongoing income from assets sold, and increased income generated from acquisitions and developments. These factors all contribute to the overall financial performance of the company.

Basic net earnings attributable to Common Units increased \$20.0 million, or 22.3%, for the three months ended March 31, 2004 as compared to the same period in 2003. This increase is primarily attributable to:

- A \$10.1 million increase in gains from the sale of depreciable real estate consistent with an increased disposition volume during the first quarter of 2004 compared to 2003, as we continue to take advantage of the current low capitalization rate environment;
- A \$10.5 million gain from the sale and settlement of a forward contract on marketable equity securities during the three months ended March 31, 2004;
- Increased revenue less operating expenses associated with \$824.9 million in asset acquisitions that occurred during the last three quarters of 2003 and the first quarter of 2004 as well as the continued lease up of new development projects, and;
- A \$3.9 million reduction in Preferred Unit distributions due to the conversion of Series A and H Preferred Units during 2003 in order to eliminate the impact of these preferred unit distributions on our fixed charge coverage ratio.

This increase was partially offset by:

- A 0.9% decrease in Same-Store rental revenues primarily due to lower effective rent per unit during the first quarter of 2004 as compared to 2003. Fluctuations in effective rent per unit are driven by supply/demand and economic conditions in individual markets;
- A 2.2% increase in expenses from our Same-Store portfolio for the three months ended March 31, 2004, as compared to the same period in 2003, primarily due to increases in insurance, repair and maintenance and personnel costs, and;
- The loss of rental revenues and a corresponding decrease in rental expense due to \$201.6 million and \$1.6 billion in total dispositions in the first three months of 2004 and the twelve months ended December 31, 2003, respectively.

Apartment Community Operations

We utilize net operating income (NOI) as the primary measure to evaluate the performance of our operating communities. NOI is defined as rental revenues less rental expenses and real estate taxes for each of our operating properties. We rely on NOI for purposes of making decisions about resource allocations and assessing segment performance. We also believe NOI is a valuable means of comparing period-to-period property performance. Our Same-Store population excludes Ameriton properties as they are acquired or developed to achieve short-term opportunistic gains and therefore, the average holding period is typically much shorter than the holding period of assets operated by the REIT. The following is a reconciliation of Same-Store NOI to earnings from operations (in thousands):

	Three Months Ended March 31,	
	2004	2003
Same-Store NOI	\$ 126,986	\$ 130,298
NOI for properties not in Same Store, including Ameriton properties	23,265	36,696
NOI classified as discontinued operations – communities sold	(1,057)	(27,492)
NOI classified as discontinued operations – communities held for sale	(6,889)	(7,037)
Net Operating Income	142,305	132,465
Other income	3,697	6,316
Depreciation on real estate investments	(52,003)	(42,404)
Interest expense	(43,840)	(38,482)
General and administrative expenses	(12,433)	(12,867)
Other expense	(1,336)	(4,208)
Earnings from operations	<u>\$ 36,390</u>	<u>\$ 40,820</u>

At March 31, 2004, investments in operating apartment communities comprised over 99% of our total real estate portfolio, based on NOI. The following table summarizes the performance of our operating portfolio (in thousands, except for percentages):

	Three Months Ended March 31,	
	2004	2003
Rental revenues	\$ 221,777	\$ 203,270
Property operating expenses.....	80,002	71,360
NOI.....	<u>\$ 141,775</u>	<u>\$ 131,910</u>
Operating margin (NOI/rental revenues).....	<u>63.9%</u>	<u>64.9%</u>
Average occupancy during period.....	<u>95.3%</u>	<u>94.5%</u>

The following table reflects revenue, expense and NOI growth for Same-Store communities that were fully operating during the three months ended March 31 for each respective comparison period (the Same-Store population excludes all Ameriton communities):

	Same-Store Revenue Growth/(Decline)	Same-Store Expense Growth/(Decline)	Same-Store NOI Growth/(Decline)
Q1 2004 vs Q1 2003	(0.9%)	2.2%	(2.5%)
Q1 2003 vs Q1 2002	(1.9%)	2.1%	(3.9%)

The \$9.9 million increase in reported NOI is directly attributable to increased NOI contributions from \$824.9 million in asset acquisitions that occurred during the last three quarters of 2003 and the first quarter of 2004 and the continued lease up of new development projects. The decrease in overall company operating margins is consistent with the 0.9% decrease in Same-Store revenue and the 2.2% increase in Same-Store expenses.

These amounts, which correspond to the Statement of Earnings, exclude NOI contributions from 5,163 units, classified as held for sale as of March 31, 2004 and all NOI from the disposition of five operating communities during the three months ended March 31, 2004 and 48 operating communities sold during 2003, as GAAP requires that these amounts be classified as discontinued operations. As the disposition of non-core assets and the redeployment of the proceeds from these sales into new acquisitions and developments is an integral part of our capital recycling program, we believe it is important to understand our operating results inclusive of amounts classified within discontinued operations. NOI for the entire apartment portfolio, including amounts reported in discontinued operations, decreased \$16.7 million, or 10.0%, for the three months ended March 31, 2004 as compared to the same period in 2003 primarily due to:

- The loss of rental revenues and a corresponding decrease in rental expense due to \$201.6 million and \$1.6 billion in total dispositions in the first three months of 2004 and the twelve months ended December 31, 2003, respectively;
- A 0.9% decrease in Same-Store rental revenues primarily due to lower effective rent per unit during the first quarter of 2004 as compared to 2003. Fluctuations in effective rent per unit are driven by supply/demand and economic conditions in individual markets, and;
- A 2.2% increase in expenses from our Same-Store portfolio for the three months ended March 31, 2004, as compared to the same period in 2003, primarily due to increases in insurance, repair and maintenance and personnel costs.

As noted above, this overall decrease, including amounts reported in discontinued operations, was partially off-set by the contribution of NOI from \$824.9 million in asset acquisitions that occurred during the last three quarters of 2003 and the first quarter of 2004 as well as the continued lease up of new development projects.

Based on our reported Same-Store revenue results during the first quarter of 2004, our strongest core markets were the greater Washington D.C. metropolitan area, Southern California and Southeast Florida (which collectively represent 61.4% of our portfolio), all of which produced positive revenue growth. Our most challenging core markets during the first quarter of 2004 were the San Francisco Bay Area, Boston, Seattle and Chicago, based on first quarter revenue results.

Other Income

Other income decreased \$2.6 million, or 41.5%, for the three months ended March 31, 2004 as compared to the same period in 2003, principally as a result of a collection of contingent proceeds related to indemnification of certain CES accounts receivable over 120 days and dividend income on stock investments during the three month ended March 31, 2003. These increases were partially offset by \$1.3 million in insurance recoveries during the three months ended March 31, 2004.

Depreciation Expense

The \$1.8 million, or 3.5%, increase in depreciation expense, including properties included in discontinued operations, during the three months ended March 31, 2004, as compared to the same period in 2003 is principally attributable to an increase in the amortization of the intangible value of lease agreements obtained in connection with apartment community acquisitions, which are amortized over the average life of the underlying lease, and acquisitions during the three months ended 2004 and all of 2003. This increase is partially offset by the cessation of depreciation expense on assets classified as held for sale during 2004.

Interest Expense

Including interest expense on properties reflected in discontinued operations, interest expense decreased \$5.3 million, or 9.5%, during the three months ended March 31, 2004, as compared to the same period in 2003. The decrease is primarily a result of lower debt balances, a reduction in interest rates on floating rate debt and refinanced debt, and the repayment of Long-Term Unsecured Debt with proceeds from our unsecured credit facilities, which were at lower interest rates during the period.

General and Administrative Expenses

The \$0.4 million, or 3.4%, decrease in general and administrative expenses for the three months ended March 31, 2004 as compared to the same period in 2003 is primarily due to lower severance costs and the corresponding decrease in compensation expense during the first quarter of 2004, partially offset by higher legal fees due to moisture infiltration and resulting mold issues.

Other Expenses

The \$2.9 million, or 68.3%, decrease in other expense for the three months ended March 31, 2004, as compared to the same period in 2003 is primarily due to a decrease in Ameriton income taxes and lower moisture infiltration and resulting mold related expenses during the first quarter of 2004.

Income from Unconsolidated Entities

Income from unconsolidated entities increased \$4.8 million during the three months ended March 31, 2004 as compared to the same period of 2003 primarily due to gains on disposition of joint venture operating communities.

Provision for Possible Loss on Investments

During the first quarter of 2003 we recognized a \$3.7 million provision for possible loss on investments due to an impairment and related write-down to the estimated fair value of three real estate investments held for sale, which is included in net earnings from discontinued operations during the three months ended March 31, 2003. No provision was recognized for the three months ended March 31, 2004.

Preferred Unit Distributions

The \$3.9 million, or 46.8%, decrease in Preferred Unit distributions for the three months ended March 31, 2004, is primarily the result of the conversion of Series H Preferred Units into Common Units in May 2003 and the conversion of Series A Preferred Units into Common Units in December 2003. We expect our Preferred Unit distributions to further decrease as a result of the planned redemption of our Series D, E and F Preferred Units during 2004.

Discontinued Operations

For properties accounted for as discontinued operations, the results of operations for properties sold during the period or designated as held for sale at the end of the period are required to be classified as discontinued operations. The property-specific components of net earnings that are classified as discontinued operations include rental revenues, rental expenses, real estate taxes, depreciation expense and interest expense (actual interest expense for encumbered properties and a pro-rata allocation of interest expense for any unencumbered portion up to our weighted average leverage ratio), as well as the net gain or loss on the eventual disposal of properties held for sale.

Consistent with our capital recycling program, we had nine operating apartment communities, representing 5,163 units, classified as held for sale under the provisions of SFAS 144, at March 31, 2004. Accordingly, we have classified the operating earnings from these nine properties within discontinued operations for the three months ended March 31, 2004 and 2003. During the three months ended March 31, 2004, we sold five operating communities. The operating results of these five communities and the related gain/loss on sale are also included in discontinued operations for both 2004 and 2003. During the twelve months ended December 31, 2003 we sold 48 operating communities. The operating results of these 48 operating communities and the related gain/loss on the sale are also included in discontinued operations for the three months ended March 31, 2003. The following is a summary of earnings from discontinued operations (in thousands):

	Three Months Ended March 31,	
	2004	2003
Rental revenues.....	\$ 16,453	\$ 60,059
Rental expenses.....	(6,274)	(18,845)
Real estate taxes.....	(2,233)	(6,685)
Depreciation on real estate investments.....	(1,768)	(9,525)
Interest expense ⁽¹⁾	(6,332)	(16,968)
Provision for possible loss on real estate investment.....	—	(3,714)
Debt extinguishment costs related to dispositions.....	(908)	(158)
Gain on dispositions of real estate investments, net.....	62,496	52,347
	<u>\$ 61,434</u>	<u>\$ 56,511</u>

- (1) The portion of interest expense included in discontinued operations that is allocated to properties based on the company's leverage ratio was \$5.3 million and \$13.4 million for the three months ended March 31, 2004 and 2003, respectively.

Gains on Dispositions of Real Estate Investments

We recognized \$62.5 million and \$52.3 million of net gains on the disposition of depreciated real estate assets (all of which were included in discontinued operations), during the three months ended March 31, 2004 and 2003, respectively. These gains are a result of our capital recycling program, which involves the disposition of non-core operating communities with less attractive growth prospects to fund investments in our core protected markets, and opportunistic acquisitions and developments by Ameriton.

Liquidity and Capital Resources

We are committed to maintaining a strong balance sheet and preserving our financial flexibility, which we believe enhances our ability to capitalize on attractive investment opportunities, as they become available. As a result of the significant cash flow generated by our operations, current cash positions, the available capacity under our unsecured credit facilities, and future proceeds from the forward sale of marketable equity securities during 2004, we believe our liquidity and financial condition are sufficient to meet all of our reasonably anticipated cash flow needs during 2004.

Operating Activities

Net cash flow provided by operating activities decreased \$14.5 million, or 20.8%, for the three months ended March 31, 2004 as compared to the same period of 2003. This decrease was principally due to a decrease in net operating income associated with \$201.6 million and \$1.6 billion in dispositions in the first three months of 2004 and the twelve months ended December 31, 2003, respectively. See Results of Operations for a more complete discussion of the factors impacting our operating performance.

Investing and Financing Activities

For the three months ended March 31, 2004, cash flows provided by investing activities decreased \$22.9 million, or 66.6%, as compared to the same period in 2003. The decrease is principally attributable to a \$204.6 million increase in net real estate investment volume during the first quarter of 2004 as compared to 2003. This decrease is partially offset by a \$29.8 million increase in net proceeds from dispositions of real estate assets and proceeds from the sale of marketable securities during the first quarter of 2004.

Cash flows used in financing activities decreased by \$36.6 million, or 35.7%, as compared to the same period in 2003. This decrease is primarily due to increased borrowings to finance a net increase in real estate investments as compared to the prior year, partially offset by a decrease associated with greater distributions and an increase in cash used to repurchase Common Units.

Our most significant non-cash investing and financing activities during the three months ended March 31, 2004 and 2003 included: (i) the issuance of A-1 Common Units in exchange for real estate in 2004 and 2003, (ii) the conversion of A-1 Common Units to A-2 Common Units in both 2004 and 2003, (iii) the assumption of mortgages payable upon the purchase of apartment communities in 2004 and (iv) the issuance of A-2 Common Units in exchange for real estate in 2004.

Scheduled Debt Maturities and Interest Payment Requirements

We have structured the repayments of our long-term debt to create a relatively level principal maturity schedule and to avoid significant repayment obligations in any year, which would impact our financial flexibility. As of March 31, 2004, we have approximately \$68.2 million of long-term debt maturing during the remainder of 2004, \$330.1 million maturing during 2005 and \$356.4 million maturing during 2006.

We currently have \$657.1 million of liquidity, including cash, liquid assets, restricted cash in escrows and capacity on our unsecured credit facilities at April 30, 2004. Our unsecured credit facilities, Long-Term Unsecured Debt and mortgages payable had effective average interest rates of 2.28%, 6.32% and 5.42%, respectively, during the three months ended March 31, 2004. These rates give effect to the impact of interest rate swaps and caps, as applicable.

We were in compliance with all financial covenants pertaining to our debt instruments during the period ended March 31, 2004.

Unitholder Distribution Requirements

Based on anticipated distribution levels for 2004 and the number of units outstanding as of March 31, 2004, we anticipate that we will pay distributions of \$397.6 million in the aggregate during 2004. However, during 2004 we plan on redeeming our Series D, E and F Preferred Units, which will reduce our total distribution level for the year. This amount represents distributions on our Common Units and all Preferred Units.

Planned Investments

Following is a summary of unfunded planned investments as of March 31, 2004, including amounts for Ameriton (dollar amounts in thousands). The amounts labeled “Discretionary” represent future investments that we plan to make, although there is not a contractual commitment to do so. The amounts labeled “Committed” represent the approximate amount that we are contractually committed to fund for properties under construction.

	Units	Planned Investments	
		Discretionary	Committed
Properties under redevelopment	3,862	\$ 18,369	\$ 11,222
Properties under construction	4,888	—	419,546
Properties In Planning and owned	2,461	370,570	—
Properties In Planning and Under Control	418	76,645	—
Property acquisitions under contract	1,721	301,502	—
Total	13,350	\$ 767,086	\$ 430,768

In addition to the planned investments noted above, we expect to make additional investments relating to planned expenditures on recently acquired communities, as well as recurring expenditures to improve and maintain our established operating communities.

We anticipate completion of most of the communities that are currently under construction and the planned operating community improvements during the remainder of 2004 and 2005. We expect to start construction on approximately \$300 - \$400 million, based on Total Expected Investment, of communities that are currently classified as In Planning during the remainder of 2004. We expect to fund the costs of these development projects over a two-to-three year period following the date construction commences. No assurances can be given that communities we do not currently own will be acquired or that planned developments will actually occur. In addition, actual costs incurred could be greater or less than our current estimates.

Funding Sources

We anticipate financing our planned investment and operating needs primarily with cash flow from operating activities, disposition proceeds from our capital redeployment program and borrowings under our unsecured credit facilities, prior to arranging long-term financing. We anticipate that net cash flow from operating activities and gains on dispositions during 2004 will be sufficient to fund anticipated distribution requirements and debt principal amortization payments. To fund planned investment activities, we had \$540 million in available capacity on our unsecured credit facilities, \$70 million in tax-deferred exchange escrow and \$1 million of cash on hand at April 30, 2004. In addition, we expect to complete the disposition of \$400 - \$600 million of operating communities during 2004. During the remainder of 2004, we will receive approximately \$46.1 million from the sale of certain marketable securities in accordance with our forward sales agreements.

In April 2004, the Operating Trust filed a shelf registration statement on Form S-3 to register an additional \$450 million (for a total of \$1 billion) in unsecured debt securities. This registration statement was declared effective in April 2004. At April 30, 2004, Archstone-Smith and the Operating Trust had \$1.5 billion available in shelf registered debt and equity securities which can be issued subject to our ability to effect offerings on satisfactory terms based on prevailing market conditions.

Other Contingencies and Hedging Activities

We are party to alleged moisture infiltration and resulting mold lawsuits at various apartment properties. We have negotiated a settlement with the named plaintiffs in certain of these lawsuits and have recorded accruals related to these claims based on estimated legal fees associated with known and anticipated costs for our counsel and plaintiffs' counsel. Additionally, we have estimated costs related to the negotiated settlements, additional resident property repair and replacement costs and temporary resident relocation expenses. It is possible that these estimates could increase or decrease as better information becomes available. Our accruals represent management's best estimate of the probable and reasonably estimable costs and are based, in part, on the status of settlement discussions, estimates obtained from third-party contractors and actual costs incurred to date. Not all plaintiffs have accepted the negotiated settlement, and further court proceedings and additional legal fees and damages may be required to fully resolve these claims.

We are aggressively pursuing recovery of a significant portion of these costs from our insurance carriers. During the quarter ended March 31, 2004, we received \$5.1 million in insurance recoveries pertaining ongoing moisture infiltration and resulting mold litigation. Of this amount, approximately \$1.3 million was recorded to other income as it pertains to legal and professional fees previously expensed; the remaining \$3.8 million was a reduction of previously capitalized costs. We are still in discussions with our insurance providers and therefore we have not recorded an estimate for future insurance recoveries. In addition, we are continuing to pursue potential recoveries from third parties who we believe bear responsibility for a considerable portion of the costs we have incurred. We cannot make assurances that we will obtain these recoveries or that our ultimate liability associated with these claims will not be material to our results of operations.

We are a party to various other claims and routine litigation arising in the ordinary course of business. We do not believe that the results of any such claims or litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position or results of operations.

As a general matter, concern about indoor exposure to mold has been increasing as such exposure has been alleged to have a variety of adverse effects on health. There has been an increasing number of lawsuits in our industry against owners and managers of apartment communities relating to moisture infiltration and resulting mold. Whenever we receive a resident complaint concerning moisture infiltration, condensation or mold problems and/or become aware that an air quality concern exists, we implement corrective measures in accordance with guidelines and protocols we have developed with the assistance of indoor air quality experts. We are working proactively with all of our residents to resolve all moisture infiltration and mold-related issues. However, we can make no assurance that additional material legal claims relating to moisture infiltration and the presence of, or exposure to, mold will not arise in the future.

The terms of our property and general liability policies after June 30, 2002, may exclude certain mold-related claims. Should an uninsured loss arise against the company, we may be required to use our own funds to resolve the issue, including litigation costs.

We are exposed to the impact of interest rate changes and will occasionally utilize interest rate swaps and interest rate caps as hedges with the objective of lowering our overall borrowing costs. These derivatives are designated as either cash flow or fair value hedges. We are also exposed to price risk associated with changes in the fair value of certain equity securities. We have entered into forward sale agreements to protect against a reduction in the fair value of these securities. We have designated this forward sale as a fair value hedge. We do not use these derivatives for trading or other speculative purposes. Further, as a matter of policy, we only enter into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, we have not, nor do we expect to sustain a material loss from the use of these hedging instruments.

We formally assess, both at inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. We measure hedge effectiveness by comparing the changes in the fair value or cash flows of the derivative instrument with the changes in the fair value or cash flows of the hedged item. We exclude the hedging instrument's time value component when assessing hedge effectiveness. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, we will discontinue hedge accounting prospectively.

To determine the fair values of derivative and other financial instruments, we use a variety of methods and assumptions that are based on market value conditions and risks existing at each balance sheet date. These methods and assumptions include standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost. All methods of assessing fair value result in a general approximation of value, and therefore, are not necessarily indicative of the actual amounts that we could realize upon disposition. During 2003, we entered into forward sale agreements with an aggregate notional amount, which represents the fair value of the underlying marketable securities, of approximately \$128.5 million and an aggregate fair value of the forward sale agreements of approximately \$486,000. As of March 31, 2004 the remaining forward sale agreements had an aggregate notional value of \$81.7 million and an aggregate fair value of \$76,000. During the three months ended March 31, 2004, we settled one of the forward sales agreements for 1.0 million shares and sold 308,200 shares of marketable securities, which were not subject to forward sales agreements, resulting in an aggregate gain of approximately \$10.5 million. Settlement of the remaining forward sale agreements will result in additional 2004 gains of approximately \$14.9 million.

Critical Accounting Policies

We define critical accounting policies as those accounting policies that require our management to exercise their most difficult, subjective and complex judgments. Our management has discussed the development and selection of all of these critical accounting policies with our audit committee, and the audit committee has reviewed the disclosure relating to these policies. Our critical accounting policies relate principally to the following key areas:

Internal Cost Capitalization

We have an investment organization that is responsible for development and redevelopment of apartment communities. Consistent with GAAP, all direct and certain indirect costs, including interest and real estate taxes, incurred during development and redevelopment activities are capitalized. Interest is capitalized on real estate assets that require a period of time to get them ready for their intended use. The amount of interest capitalized is based upon the average amount of accumulated development expenditures and indirect project costs associated with our development and redevelopment activities. Indirect project costs consist primarily of personnel costs associated with construction administration and development accounting, legal fees, and various office costs that clearly relate to projects under development. Because the estimation of capitalizable internal costs requires management's judgment, we believe internal cost capitalization is a "critical accounting estimate".

Valuation of Real Estate

Long-lived assets to be held and used are carried at cost and evaluated for impairment when events or changes in circumstances indicate such an evaluation is warranted. We also evaluate assets for potential impairment when we deem them to be held for sale. Valuation of real estate is considered a "critical accounting estimate" because the evaluation of impairment and the determination of fair values involve a number of management assumptions relating to future economic events that could materially affect the determination of the ultimate value, and therefore, the carrying amounts of our real estate.

When determining if there is an indication of impairment, we estimate the asset's NOI over the anticipated holding period on an undiscounted cash flow basis and compare this amount to its carrying value. Estimating the expected NOI and holding period requires significant management judgment. If it is determined that there is an indication of impairment for assets to be held and used, or if an asset is deemed to be held for sale, we then determine the asset's fair value.

The apartment industry uses capitalization rates as the primary measure of fair value. Specifically, annual NOI for a community is divided by an estimated capitalization rate to determine the fair value of the community. Determining the appropriate capitalization rate requires significant judgment and is typically based on the prevailing rate for the market or submarket. Further, capitalization rates can fluctuate up or down due to a variety of factors in the overall economy or within local markets. If the actual capitalization rate for a community is significantly different from our estimated rate, the impairment evaluation for an individual asset could be materially affected. Historically we have had limited and infrequent impairment charges, and the majority of our apartment community sales have produced gains. We evaluate a real estate asset for potential impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable.

Capital Expenditures and Depreciable Lives

We incur costs relating to redevelopment initiatives, revenue enhancing and expense reducing capital expenditures, and recurring capital expenditures that are capitalized as part of our real estate. These amounts are capitalized and depreciated over estimated useful lives determined by management. We allocate the cost of newly acquired properties between net tangible and identifiable intangible assets. The primary intangible asset associated with an apartment community acquisition is the value of the existing lease agreements. When allocating cost to an acquired property, we estimate value of the land, building and fixtures assuming the property is vacant and then allocate costs to the intangible value of the existing lease agreements. We depreciate the building and fixtures based on the expected useful life of the asset and amortize the intangible value of the lease agreements over the average remaining life of the existing leases.

Determining whether expenditures meet the criteria for capitalization, the assignment of depreciable lives and determining the appropriate amounts to allocate between tangible and intangible assets for property acquisitions requires our management to exercise significant judgment and is therefore considered a “significant accounting estimate.”

Pursuit Costs

We incur costs relating to the potential acquisition of real estate, which we refer to as pursuit costs. To the extent that these costs are identifiable with a specific property and would be capitalized if the property were already acquired, the costs are accumulated by project and capitalized in the Other Asset section of the balance sheet. If these conditions are not met, the costs are expensed as incurred. Capitalized costs include but are not limited to earnest money, option fees, environmental reports, traffic reports, surveys, photos, blueprints, direct and incremental personnel costs and legal costs. Upon acquisition, the costs are included in the basis of the acquired property. When it becomes probable that a prospective acquisition will not be acquired, the accumulated costs for the property are charged to other expense on the statement of earnings in the period such a determination is made. Because of the inherent judgment involved in evaluating whether a prospective property will ultimately be acquired, we believe capitalizable pursuit costs are a “critical accounting estimate.”

Moisture Infiltration and Resulting Mold Remediation Costs

Accounting for correction of moisture infiltration and mold remediation costs is considered a “critical accounting estimate” because significant judgment is required by management to determine when to record a liability, how much should be accrued as a liability and whether such costs meet the criteria for capitalization.

We estimate and accrue costs related to correcting the moisture infiltration and remediating resulting mold when we anticipate incurring costs because of the threat of litigation or the assertion of a legal claim. When we incur costs at our own discretion, the cost is recognized as incurred. Moisture infiltration and resulting mold remediation costs are only capitalized when it is determined by management that such remediation costs also extend the life, increase the capacity, or improve the safety or efficiency of the property relative to when the community was originally constructed or acquired, if later. All other related costs are expensed.

There are considerable uncertainties that affect our ability to estimate the ultimate cost of correction and remediation efforts. These uncertainties include, but are not limited to, assessing the exact nature and extent of the issues, the extent of required remediation efforts and the varying costs of alternative strategies for addressing the issues. Any accrual represents management’s best estimate of the probable and reasonably estimable costs and is based, in part, on estimates obtained from third-party contractors and actual costs incurred to date. It is possible that these estimates could increase or decrease as better information becomes available.

We accrue for litigation settlement costs when a loss contingency is both probable and the amount of loss can be reasonably estimated. Estimating the likelihood and amount of a loss contingency requires significant judgment by management and is therefore considered a “critical accounting estimate”. We base these estimates on the best information available as of the end of the period, which includes, but is not limited to, estimates obtained from third-party contractors as well as actual costs incurred to date. It is possible that these estimates could increase or decrease as better information becomes available. We generally recognize legal expenses as incurred; however, if such fees are related to the accrual for a known legal settlement, we accrue for the related incurred and anticipated legal fees at the same time we accrue the cost of settlement.

Off Balance Sheet Arrangements

Investments in entities that are not controlled through majority economic interest are not consolidated and are reported as investments in unconsolidated entities. Our investments in unconsolidated entities consist of \$91.3 million in real estate joint ventures, which generally consists of our percentage ownership in the GAAP equity of the joint ventures.

CES is a service business that we acquired during the Smith Merger in 2001 and prior to its sale had been reported as an unconsolidated entity in our financial statements. CES provides engineering services for commercial and residential real estate owners across the country. On December 19, 2002, CES was sold to a third party for \$178 million in cash. As a condition of sale, we agreed to indemnify the buyer for certain representations and warranties contained in the sale contract. The indemnifications terminate on June 30, 2004, and while we do not believe it is probable that the indemnities will reach the maximum amount, the related liability is limited to a maximum exposure of \$44.5 million with exceptions including third party claims, insurance, arbitration, environmental issues and collection of specified accounts receivable, each of which is without deduction or limitation. There are no recourse provisions available to us to recover any potential future payments from third parties.

SMC is a service business that we acquired in the Smith Merger during 2001. We sold SMC during February 2003 to former members of SMC’s senior management. Prior to the sale, we reported SMC as an unconsolidated entity in our financial statements. We received two notes receivable totaling \$5.8 million and bearing an interest rate of 7.0% as consideration for the sale. The first note for \$3.5 million had principal payments that began in October 2003 with payment in full by February 2008. At March 31, 2004 the balance of this note was \$3.3 million. The second note for \$2.3 million was fully repaid along with all accrued interest due during May 2003. For accounting purposes, we will not recognize the divestiture until our responsibilities for certain performance guarantees, which pertain to ongoing construction projects at the time of sale, expire. Principal and interest payments received prior to the recognition of this transaction as a divestiture will be recorded as a reduction to our investment basis, which is included in other assets in the accompanying condensed consolidated balance sheets.

Prior to their sale, we extended approximately \$54.7 million in performance bond guarantees relating to contracts entered into by CES and SMC, which are customary to the type of business in which these entities engage. As of March 31, 2004, \$1.2 million of these performance bond guarantees were still outstanding, based upon information provided by these companies. Archstone-Smith, our subsidiaries and investees have not been required to perform on these guarantees, nor do we anticipate being required to perform on such guarantees. Other than for projects pending at the time of sale and specifically agreed to by the company, we have not extended performance bond guarantees to either CES or SMC subsequent to their sale dates. Since we believe that our risk of loss under these contingencies is remote, no accrual for potential loss has been made in the accompanying financial statements. There are recourse provisions available to us to recover any potential future payments from the new owners of CES and SMC.

As part of the Smith Merger, we are required to indemnify the former Smith Partnership unitholders for any personal income tax expense resulting from the sale of certain high-rise properties acquired in the Smith Merger.

Contractual Commitments

The following table summarizes information contained in Management's Discussion and Analysis of Financial Condition and Results of Operations and in our financial statements in this Form 10-Q regarding contractual commitments (amounts in millions):

	<u>2004</u>	<u>2005 and 2006</u>	<u>2007 and 2008</u>	<u>2009 thru 2095</u>	<u>Total</u>
Scheduled long-term debt maturities	\$ 68.2	\$ 686.5	\$ 977.3	\$ 2,083.2	\$ 3,815.2
Unsecured credit facilities ⁽¹⁾	54.0	150.0	—	—	204.0
Development and redevelopment expenditures	430.8	—	—	—	430.8
Performance bond guarantees ⁽²⁾	27.8	8.7	—	1.1	37.6
Lease commitments and other ⁽³⁾	7.3	6.8	12.9	202.5	229.5
Total.....	<u>\$ 588.1</u>	<u>\$ 852.0</u>	<u>\$ 990.2</u>	<u>\$ 2,286.8</u>	<u>\$ 4,717.1</u>

(1) The \$600 million unsecured facility matures on October 30, 2006, with a one-year extension option available at our discretion.

(2) The Operating Trust, our subsidiaries and investees have not been required to perform on these guarantees, nor do we anticipate being required to perform on such guarantees. Since we believe that our risk of loss under these contingencies is remote, no accrual for potential loss has been made in the accompanying financial statements. We are still obligated for performance bond guarantees for CES and SMC subsequent to their sale, but there are recourse provisions available to us to recover any potential future payments from the new owners of CES and SMC.

(3) Lease commitments relate principally to ground lease payments as of December 31, 2003. There have been no material changes since that date.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our capital structure includes the use of both fixed and floating rate debt and we are exposed to the impact of changes in interest rates. We also use interest rate swap and interest rate cap derivative financial instruments in order to modify interest rate characteristics of our debt in an effort to minimize our overall borrowing costs. We do not utilize these derivative financial instruments for speculative purposes. To assist us in evaluating our interest rate risk and counter-party credit risk, we use the services of third party consultants.

As a result of our balance sheet management philosophy, we have managed our debt maturities to create a relatively level principal maturity schedule, without significant repayment obligations in any year. If current market conditions do not permit us to replace maturing debt at comparable interest rates, we are not exposed to significant portfolio level interest rate volatility due to the management of our maturity schedules. There have been no material changes to our market risk profile since December 31, 2003. See Item 7a in our 2003 Form 10-K for detailed information about the qualitative and quantitative disclosures about our market risk.

Item 4. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934). Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were, to the best of their knowledge, effective as of March 31, 2004, to ensure that information required to be disclosed in reports that are filed or submitted under the Securities Exchange Act are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to March 31, 2004, there were no significant changes in the Operating Trust's disclosure controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to the following claims in connection with moisture infiltration and resulting mold issues at high-rise properties in Southeast Florida.

Henriques, et al. v. Archstone-Smith Operating Trust, et al., filed on August 27, 2002 (the “Henriques Claim”), in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, on behalf of a class of residents at Harbour House. We have reached a court-approved settlement with the plaintiffs in this matter. The case alleged that water infiltration and resulting mold contamination at the property had been caused by faulty air-conditioning and had resulted in both personal injuries to the plaintiffs and damage to their property. Based on the settlement, we have recorded a liability for estimated legal fees associated with known and anticipated costs for our counsel and plaintiffs’ counsel, as well as estimated settlement costs. Not all plaintiffs have accepted the court-approved settlement, and some of these individuals have filed separate lawsuits. We are in the process of determining the merits of their claims and therefore, potential legal fees and damages associated with these claims are not contemplated in our current accrual. See Management’s Discussion and Analysis of Financial Conditions and Results of Operations in this Quarterly Report for further discussion regarding this accrual.

Santos, et al. v. Archstone-Smith Operating Trust et al., filed on February 13, 2003, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, on behalf of a class of residents at Harbour House. The plaintiffs in this case make substantially the same allegations as those made in the *Henriques* claim and seek both injunctive relief and unspecified monetary and punitive damages. Although we believe this case to be without merit, we are currently in settlement discussions with the individuals who have retained counsel. Based on the status of these discussions, we have recorded a liability for estimated legal fees associated with known and anticipated costs for our counsel and plaintiffs’ counsel, as well as estimated settlement costs. See Management’s Discussion and Analysis of Financial Conditions and Results of Operations in this Quarterly Report for further discussion regarding this accrual.

Michel, et al. v. Archstone-Smith Operating Trust, et al., was filed on May 9, 2003, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, on behalf of the class of residents at the property. The plaintiffs in this case make substantially the same allegations as those made in the *Henriques* claim and seek both injunctive relief and unspecified monetary and punitive damages. We believe this suit is without merit, and intend to vigorously contest the claims asserted in this litigation. No assurances can be given that this lawsuit, if adversely determined, will not have a material adverse effect on the company.

Semidey, et al. v. Archstone-Smith Operating Trust et al., was filed on June 9, 2003, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, on behalf of the class of residents at the property. The plaintiffs in this case make substantially the same allegations as those made in the *Henriques* claim and seek both injunctive relief and unspecified monetary and punitive damages. We were never served with this complaint, but we have reached a settlement with a majority of the represented residents and are in discussions with the remaining plaintiffs. As a result, this complaint has been voluntarily dismissed without prejudice. Based on the status of these discussions, we have recorded a liability for estimated legal fees associated with known and anticipated costs for our counsel and plaintiffs’ counsel, as well as estimated settlement costs. No assurances can be given that the claims of the remaining represented residents will not result in additional lawsuits, or that if any such lawsuits were adversely determined, it would not have a material adverse effect on the company.

We are party to various other claims and routine litigation arising in the ordinary course of business. We do not believe that the results of any such claims and litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position or results of operations.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table summarizes the A-1 Common Units that were repurchased for either cash or A-2 Common Units:

Period	Number of Units Purchased	Average Price Paid per Unit	Total Number of Units Purchased as Part of Publicly Announced Plan	Maximum Approximate Dollar Value That May Yet Be Purchased Under the Plan
1/1/04–1/31/04	536,684	\$ 29.35	—	—
2/1/04 – 2/29/04	108,729	\$ 28.00	—	—
3/1/04 – 3/31/04	10,296	\$ 27.35	—	—
Total	<u>655,709</u>		<u>—</u>	

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 12.1 Computation of Ratio of Earnings to Fixed Charges
- 12.2 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Unit Distributions
- 15.1 Letter from KPMG LLP dated May 7, 2004, regarding unaudited financial information
- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Chief Financial Officer
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARCHSTONE-SMITH OPERATING TRUST

BY: /S/ R. SCOT SELLERS
R. Scot Sellers
Chief Executive Officer

BY: /S/ CHARLES E. MUELLER, JR.
Charles E. Mueller, Jr.
Chief Financial Officer
(Principal Financial Officer)

BY: /S/ MARK A. SCHUMACHER
Mark A. Schumacher
Controller and Senior Vice President
(Principal Accounting Officer)

Date: May 7, 2004

ARCHSTONE-SMITH OPERATING TRUST
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Dollar amounts in thousands)

(Unaudited)

	Three Months Ended March 31,		Twelve Months Ended December 31,				
	2004 ⁽¹⁾	2003 ⁽¹⁾	2003 ⁽¹⁾	2002 ⁽¹⁾	2001 ⁽¹⁾	2000 ⁽¹⁾	1999 ⁽¹⁾
Earnings from operations.....	\$ 36,390	\$ 40,820	\$ 170,467	\$ 199,443	\$ 156,688	\$ 181,534	\$ 192,864
Add:							
Interest expense	43,840	38,482	231,222	301,992	205,813	184,969	140,704
Earnings as adjusted	<u>\$ 80,230</u>	<u>\$ 79,302</u>	<u>\$ 401,689</u>	<u>\$ 501,435</u>	<u>\$ 362,501</u>	<u>\$ 366,503</u>	<u>\$ 333,568</u>
Fixed charges:							
Interest expense	\$ 43,840	\$ 38,482	\$ 231,222	\$ 301,992	\$ 205,813	\$ 184,969	\$ 140,704
Capitalized interest	5,915	5,906	26,854	32,377	29,186	37,079	41,099
Total fixed charges	<u>\$ 49,755</u>	<u>\$ 44,388</u>	<u>\$ 258,076</u>	<u>\$ 334,369</u>	<u>\$ 234,999</u>	<u>\$ 222,048</u>	<u>\$ 181,803</u>
Ratio of earnings to fixed charges.....	<u>1.6</u>	<u>1.8</u>	<u>1.6</u>	<u>1.5</u>	<u>1.5</u>	<u>1.7</u>	<u>1.8</u>

(1) Net earnings from discontinued operations have been reclassified for all periods presented.

ARCHSTONE-SMITH OPERATING TRUST
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED UNIT DISTRIBUTIONS

(Dollar amounts in thousands)

(Unaudited)

	Three Months Ended March 31,			Twelve Months Ended December 31,			
	2004 ⁽¹⁾	2003 ⁽¹⁾	2003 ⁽¹⁾	2002 ⁽¹⁾	2001 ⁽¹⁾	2000 ⁽¹⁾	1999 ⁽¹⁾
Earnings from operations.....	\$ 36,390	\$ 40,820	\$ 170,467	\$ 199,443	\$ 156,688	\$ 181,534	\$ 192,864
Add:							
Interest expense	43,840	38,482	231,222	301,992	205,813	184,969	140,704
Earnings as adjusted	<u>\$ 80,230</u>	<u>\$ 79,302</u>	<u>\$ 401,689</u>	<u>\$ 501,435</u>	<u>\$ 362,501</u>	<u>\$ 366,503</u>	<u>\$ 333,568</u>
Combined fixed charges and Preferred Unit distributions:							
Interest expense	\$ 43,840	\$ 38,482	\$ 231,222	\$ 301,992	\$ 205,813	\$ 184,969	\$ 140,704
Capitalized interest	5,915	5,906	26,854	32,377	29,186	37,079	41,099
Total fixed charges	<u>49,755</u>	<u>44,388</u>	<u>258,076</u>	<u>334,369</u>	<u>234,999</u>	<u>222,048</u>	<u>181,803</u>
Preferred Unit distributions.....	4,447	8,358	26,153	34,309	25,877	25,340	23,733
Combined fixed charges and Preferred Unit distributions..	<u>\$ 54,202</u>	<u>\$ 52,746</u>	<u>\$ 284,229</u>	<u>\$ 368,678</u>	<u>\$ 260,876</u>	<u>\$ 247,388</u>	<u>\$ 205,536</u>
Ratio of earnings to combined fixed charges and Preferred Unit distributions	<u>1.5</u>	<u>1.5</u>	<u>1.4</u>	<u>1.4</u>	<u>1.4</u>	<u>1.5</u>	<u>1.6</u>

(1) Net earnings from discontinued operations have been reclassified for all periods presented.

The Board of Trustees and Unitholders
Archstone-Smith Operating Trust:

Re: Registration Statements Nos. 333-89164 (Form S-3) and 333-114394 (Form S-3).

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated April 23, 2004, related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the "Act"), such report is not considered a part of a registration statement prepared or certified by an accountant, or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

KPMG LLP

Denver, Colorado
April 23, 2004

CERTIFICATIONS

I, R. Scot Sellers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Archstone-Smith Operating Trust (the “registrant”).
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of trustees (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls over financial reporting.

By: /s/ R. SCOT SELLERS
R. Scot Sellers
Chief Executive Officer

Date: May 7, 2004

CERTIFICATIONS

I, Charles E. Mueller, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Archstone-Smith Operating Trust (the “registrant”).
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of trustees (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls over financial reporting.

By: /s/ CHARLES E. MUELLER, JR.

Charles E. Mueller, Jr.
Chief Financial Officer
(Principal Financial Officer)

Date: May 7, 2004

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, being the Chief Executive Officer of Archstone-Smith Operating Trust, a Maryland real estate investment trust (the "Issuer"), hereby certifies that the Quarterly Report on Form 10-Q (the "Periodic Report") of the Issuer for the quarter ended March 31, 2004, which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. §78m(a)) and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

By: /s/ R. SCOT SELLERS
R. Scot Sellers
Chief Executive Officer

Date: May 7, 2004

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, being the Chief Financial Officer of Archstone-Smith Operating Trust, a Maryland real estate investment trust (the "Issuer"), hereby certifies, that the Quarterly Report on Form 10-Q (the "Periodic Report") of the Issuer for the quarter ended March 31, 2004, which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. §78m(a)) and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

By: /s/ CHARLES E. MUELLER, JR.
Charles E. Mueller, Jr.
Chief Financial Officer

Date: May 7, 2004