

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 10-Q
May 10, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2007

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: 1-6300

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

(Exact name of Registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-6216339
(I.R.S. Employer
Identification No.)

200 South Broad Street

Philadelphia, PA

19102

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 10-Q

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (215) 875-0700

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

Yes No

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common shares of beneficial interest, \$1.00 par value per share, outstanding at May 1, 2007: 37,108,980

Table of Contents

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1.	
<u>Financial Statements (Unaudited):</u>	
<u>Consolidated Balance Sheets – March 31, 2007 and December 31, 2006</u>	1
<u>Consolidated Statements of Income – Three Months Ended March 31, 2007 and 2006</u>	2
<u>Consolidated Statements of Cash Flows – Three Months Ended March 31, 2007 and 2006</u>	4
<u>Notes to Unaudited Consolidated Financial Statements</u>	5
Item 2.	
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3.	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4.	
<u>Controls and Procedures</u>	32
<u>PART II OTHER INFORMATION</u>	
Item 1.	
<u>Legal Proceedings</u>	32
Item 1A.	
<u>Risk Factors</u>	32
Item 2.	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
Item 3.	
Not Applicable	
Item 4.	
Not Applicable	
Item 5.	
Not Applicable	
Item 6.	
<u>Exhibits</u>	35
<u>SIGNATURES</u>	36

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****PENNSYLVANIA REAL ESTATE INVESTMENT TRUST****CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share amounts)

(Unaudited)

	March 31, 2007	December 31, 2006
ASSETS:		
INVESTMENTS IN REAL ESTATE, at cost:		
Operating properties	\$ 2,908,517	\$ 2,909,862
Construction in progress	247,397	216,892
Land held for development	5,616	5,616
Total investments in real estate	3,161,530	3,132,370
Accumulated depreciation	(328,948)	(306,893)
Net investments in real estate	2,832,582	2,825,477
INVESTMENTS IN PARTNERSHIPS, at equity:	37,821	38,621
OTHER ASSETS:		
Cash and cash equivalents	18,199	15,808
Rents and other receivables (net of allowance for doubtful accounts of \$11,427 and \$11,120 at March 31, 2007 and December 31, 2006, respectively)	44,198	46,065
Intangible assets (net of accumulated amortization of \$113,764 and \$108,585 at March 31, 2007 and December 31, 2006, respectively)	128,167	139,117
Deferred costs and other assets	88,436	79,120
Assets held for sale	98	1,401
Total assets	\$ 3,149,501	\$ 3,145,609
LIABILITIES:		
Mortgage notes payable	\$ 1,510,355	\$ 1,572,908
Debt premium on mortgage notes payable	23,217	26,663
Credit Facility	425,000	332,000
Corporate notes payable	1,148	1,148
Tenants' deposits and deferred rents	12,797	12,098
Distributions in excess of partnership investments	61,893	63,439
Accrued expenses and other liabilities	81,216	93,656
Liabilities related to assets held for sale	55	34
Total liabilities	2,115,681	2,101,946
MINORITY INTEREST:	112,844	114,363

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 10-Q

COMMITMENTS AND CONTINGENCIES (Note 9)

SHAREHOLDERS' EQUITY:

Shares of beneficial interest, \$1.00 par value per share; 100,000 shares authorized; issued and outstanding 37,107 shares at March 31, 2007 and 36,947 shares at December 31, 2006, respectively	37,107	36,947
Non-convertible senior preferred shares, 11% cumulative, \$.01 par value per share; 2,475 shares authorized, issued and outstanding at March 31, 2007 and December 31, 2006, respectively	25	25
Capital contributed in excess of par	919,526	917,322
Accumulated other comprehensive income	12,650	7,893
Distributions in excess of net income	(48,332)	(32,887)
Total shareholders' equity	920,976	929,300
 Total liabilities, minority interest and shareholders' equity	 \$ 3,149,501	 \$ 3,145,609

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST****CONSOLIDATED STATEMENTS OF INCOME**

(in thousands of dollars)

(Unaudited)

	For the Three Months Ended March 31,	
	2007	2006
REVENUE:		
Real estate revenues:		
Base rent	\$ 70,899	\$ 70,220
Expense reimbursements	34,774	33,066
Percentage rent	2,091	2,138
Lease termination revenue	475	1,810
Other real estate revenues	3,657	3,763
Total real estate revenue	111,896	110,997
Management company revenue	440	639
Interest and other income	1,304	389
Total revenues	113,640	112,025
EXPENSES:		
Property operating expenses:		
CAM and real estate taxes	(32,504)	(30,813)
Utilities	(6,258)	(5,483)
Other operating expenses	(5,616)	(5,932)
Total property operating expenses	(44,378)	(42,228)
Depreciation and amortization	(31,774)	(30,024)
Other expenses:		
General and administrative expenses	(10,731)	(10,267)
Executive separation		(3,985)
Income taxes and other	(326)	(78)
Total other expenses	(11,057)	(14,330)
Interest expense	(23,811)	(23,810)
Total expenses	(111,020)	(110,392)
Income before equity in income of partnerships, gains on sales of interests in real estate, minority interest and discontinued operations	2,620	1,633
Equity in income of partnerships	955	1,683
Gains on sales of interests in real estate		61
Income before minority interest and discontinued operations	3,575	3,377
Minority interest	(376)	(643)
Income from continuing operations	3,199	2,734
Income (loss) from discontinued operations:		

Edgar Filing: PENNSYLVANIA REAL ESTATE INVESTMENT TRUST - Form 10-Q

Operating results from discontinued operations	(122)	(2,335)
Gain on sale of discontinued operations	6,699	
Minority interest	(691)	242
Income (loss) from discontinued operations	5,886	(2,093)
Net income	9,085	641
Dividends on preferred shares	(3,403)	(3,403)
Net income available (loss allocable) to common shareholders	\$ 5,682	\$ (2,762)

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST****EARNINGS (LOSS) PER SHARE**

(in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31,	
	2007	2006
Income from continuing operations	\$ 3,199	\$ 2,734
Dividends on preferred shares	(3,403)	(3,403)
Loss from continuing operations allocable to common shareholders	(204)	(669)
Dividends on unvested restricted shares	(272)	(288)
Loss from continuing operations used to calculate earnings per share	(476)	(957)
Minority interest in properties continuing operations		
Loss from continuing operations used to calculate earnings per share diluted	\$ (476)	\$ (957)
Income (loss) from discontinued operations	\$ 5,886	\$ (2,093)
Basic earnings (loss) per share:		
Loss from continuing operations	\$ (0.01)	\$ (0.02)
Income (loss) from discontinued operations	0.16	(0.06)
	\$ 0.15	\$ (0.08)
Diluted earnings (loss) per share:		
Loss from continuing operations	\$ (0.01)	\$ (0.02)
Income (loss) from discontinued operations	0.16	(0.06)
	\$ 0.15	\$ (0.08)
Weighted average shares outstanding basic	36,563	36,099
Effect of common share equivalents	(1)	(1)
Weighted average shares outstanding diluted	36,563	36,099

- (1) For the three month periods ended March 31, 2007 and March 31, 2006, there are net losses allocable to common shareholders from continuing operations, so the effect of common share equivalents is excluded from the calculation of diluted income (loss) per share for these periods.

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**PENNSYLVANIA REAL ESTATE INVESTMENT TRUST****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of dollars)

(Unaudited)

	For the Three Months Ended March 31,	
	2007	2006
Cash Flows from Operating Activities:		
Net income	\$ 9,085	\$ 641
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	24,178	22,256
Amortization	4,908	7,320
Straight-line rent adjustments	(536)	(613)
Provision for doubtful accounts	741	819
Amortization of deferred compensation	1,546	3,202
Minority interest	1,067	401
Gains on sales of interests in real estate	(6,699)	(61)
Change in assets and liabilities:		
Net change in other assets	(520)	9,853
Net change in other liabilities	963	(4,116)
Net cash provided by operating activities	34,733	39,702
Cash Flows from Investing Activities:		
Investments in consolidated real estate acquisitions, net of cash acquired	(10,425)	(802)
Investments in consolidated real estate improvements	(1,032)	(5,638)
Additions to construction in progress	(47,608)	(43,342)
Investments in partnerships	(2,406)	(198)
Decrease (increase) in cash escrows	4,285	(1,683)
Capitalized leasing costs	(1,304)	(1,257)
Additions to leasehold improvements	(244)	(69)