

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Form 10-Q

October 30, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-Q

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Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2013

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

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST  
(Exact name of Registrant as specified in its charter)

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Pennsylvania (State or other jurisdiction of incorporation or organization)	23-6216339 (I.R.S. Employer Identification No.)
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200 South Broad Street Philadelphia, PA (Address of principal executive offices)	19102 (Zip Code)
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Registrant's telephone number, including area code (215) 875-0700

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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 the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	(Do not check if a smaller reporting company) Smaller reporting company	<input type="checkbox"/>

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 October 25, 2013: 68,202,291



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Except as the context otherwise requires, references in this Quarterly Report on Form 10-Q to “we,” “our,” “us,” the “Company” and “PREIT” refer to Pennsylvania Real Estate Investment Trust and its subsidiaries, including our operating partnership, PREIT Associates, L.P. References in this Quarterly Report on Form 10-Q to “PREIT Associates” or the “Operating Partnership” refer to PREIT Associates, L.P.

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CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)	September 30, 2013 (unaudited)	December 31, 2012
<b>ASSETS:</b>		
<b>INVESTMENTS IN REAL ESTATE, at cost:</b>		
Operating properties	\$3,422,311	\$3,395,681
Construction in progress	88,390	68,619
Land held for development	10,450	13,240
Total investments in real estate	3,521,151	3,477,540
Accumulated depreciation	(993,735	) (907,928
Net investments in real estate	2,527,416	2,569,612
<b>INVESTMENTS IN PARTNERSHIPS, at equity:</b>	15,615	14,855
<b>OTHER ASSETS:</b>		
Cash and cash equivalents	24,893	33,990
Tenant and other receivables (net of allowance for doubtful accounts of \$14,159 and \$14,042 at September 30, 2013 and December 31, 2012, respectively)	35,535	38,473
Intangible assets (net of accumulated amortization of \$14,410 and \$14,940 at September 30, 2013 and December 31, 2012, respectively)	9,447	8,673
Deferred costs and other assets	100,223	97,399
Assets held for sale	—	114,622
Total assets	\$2,713,129	\$2,877,624
<b>LIABILITIES:</b>		
Mortgage loans payable	\$1,538,102	\$1,718,052
Term Loan	—	182,000
Revolving Facility	90,000	—
Tenants' deposits and deferred rent	15,411	14,862
Distributions in excess of partnership investments	64,187	64,874
Fair value of derivative instruments	1,387	9,742
Liabilities on assets held for sale	—	102,417
Accrued expenses and other liabilities	72,315	72,448
Total liabilities	1,781,402	2,164,395
<b>COMMITMENTS AND CONTINGENCIES (Note 6):</b>		
<b>EQUITY:</b>		
Series A Preferred Shares, \$.01 par value per share; 25,000 preferred shares authorized; 4,600 shares of Series A Preferred Shares issued and outstanding at each \$46 of September 30, 2013 and December 31, 2012; liquidation preference of \$115,000		\$46
Series B Preferred Shares, \$.01 par value per share; 25,000 preferred shares authorized; 3,450 shares of Series B Preferred Shares issued and outstanding at each 35 of September 30, 2013 and December 31, 2012; liquidation preference of \$86,250		35
Shares of beneficial interest, \$1.00 par value per share; 200,000 shares authorized; issued and outstanding 68,202 shares at September 30, 2013 and 56,331 shares at December 31, 2012	68,202	56,331
Capital contributed in excess of par	1,463,845	1,247,730
Accumulated other comprehensive loss	(7,804	) (20,867
Distributions in excess of net income	(626,885	) (608,634
Total equity—Pennsylvania Real Estate Investment Trust	897,439	674,641
Noncontrolling interest	34,288	38,588

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Total equity	931,727	713,229
Total liabilities and equity	\$2,713,129	\$2,877,624

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
<b>REVENUE:</b>				
Real estate revenue:				
Base rent	\$70,646	\$67,951	\$209,990	\$201,340
Expense reimbursements	33,517	30,959	95,704	91,280
Percentage rent	593	694	2,169	2,099
Lease termination revenue	336	279	579	1,691
Other real estate revenue	3,186	2,965	8,953	8,723
Total real estate revenue	108,278	102,848	317,395	305,133
Other income	3,208	2,608	5,491	4,254
Total revenue	111,486	105,456	322,886	309,387
<b>EXPENSES:</b>				
Operating expenses:				
CAM and real estate taxes	(36,938 )	(33,755 )	(107,426 )	(100,557 )
Utilities	(6,954 )	(6,637 )	(17,213 )	(17,525 )
Other operating expenses	(4,806 )	(5,228 )	(12,824 )	(13,815 )
Total operating expenses	(48,698 )	(45,620 )	(137,463 )	(131,897 )
Depreciation and amortization	(36,053 )	(31,918 )	(105,332 )	(95,232 )
Other expenses:				
General and administrative expenses	(8,116 )	(8,694 )	(26,578 )	(28,818 )
Impairment of assets	(29,966 )		(29,966 )	
Provision for employee separation expense	—	(4,958 )	(2,314 )	(5,754 )
Project costs and other expenses	(462 )	(380 )	(862 )	(777 )
Total other expenses	(38,544 )	(14,032 )	(59,720 )	(35,349 )
Interest expense, net	(23,477 )	(29,996 )	(78,503 )	(91,531 )
Total expenses	(146,772 )	(121,566 )	(381,018 )	(354,009 )
Loss before equity in income of partnerships, discontinued operations and gains on sales of discontinued operations	(35,286 )	(16,110 )	(58,132 )	(44,622 )
Equity in income of partnerships	2,345	2,164	7,081	6,110
Loss from continuing operations	(32,941 )	(13,946 )	(51,051 )	(38,512 )
Discontinued operations:				
Operating results from discontinued operations	428	1,085	2,082	2,834
Gains on sales of discontinued operations	45,097	—	78,351	—
Income from discontinued operations	45,525	1,085	80,433	2,834
Net income (loss)	12,584	(12,861 )	29,382	(35,678 )
Less: net (income) loss attributable to noncontrolling interest	(382 )	508	(1,073 )	1,440
Net income (loss) attributable to PREIT	12,202	(12,353 )	28,309	(34,238 )
Less: dividends on preferred shares	(3,962 )	(2,372 )	(11,886 )	(4,217 )
Net income (loss) attributable to PREIT common shareholders	\$8,240	\$(14,725 )	\$16,423	\$(38,455 )

See accompanying notes to the unaudited consolidated financial statements.





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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

(in thousands of dollars, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Loss from continuing operations	\$(32,941 )	\$(13,946 )	\$(51,051 )	\$(38,512 )
Noncontrolling interest	992	551	1,656	1,552
Dividends on preferred shares	(3,962 )	(2,372 )	(11,886 )	(4,217 )
Dividends on unvested restricted shares	(108 )	(132 )	(319 )	(321 )
Loss from continuing operations used to calculate loss per share—basic and diluted	\$(36,019 )	\$(15,899 )	\$(61,600 )	\$(41,498 )
Income from discontinued operations	\$45,525	\$1,085	\$80,433	\$2,834
Noncontrolling interest	(1,374 )	(43 )	(2,729 )	(112 )
Income from discontinued operations used to calculate earnings per share—basic and diluted	\$44,151	\$1,042	\$77,704	\$2,722
Basic and diluted earnings (loss) per share:				
Loss from continuing operations	\$(0.53 )	\$(0.29 )	\$(0.99 )	\$(0.75 )
Income from discontinued operations	0.65	0.02	1.25	0.05
	\$0.12	\$(0.27 )	\$0.26	\$(0.70 )
(in thousands of shares)				
Weighted average shares outstanding—basic	67,579	55,190	62,330	55,081
Effect of common share equivalents <sup>(1)</sup>	—	—	—	—
Weighted average shares outstanding—diluted	67,579	55,190	62,330	55,081

The Company had net losses from continuing operations for all periods presented. Therefore, the effects of common share equivalents of 825 and 982 for the three months ended September 30, 2013 and 2012, respectively, and 851 and 1,017 for the nine months ended September 30, 2013 and 2012, respectively, are excluded from the calculation of diluted loss per share for these periods because they would be antidilutive.

See accompanying notes to the unaudited consolidated financial statements.

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PENNSYLVANIA REAL ESTATE INVESTMENT TRUST  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Comprehensive income (loss):				
Net income (loss)	\$12,584	\$(12,861 )	\$29,382	\$(35,678 )
Unrealized gain on derivatives	651	3,030	8,747	7,307
Amortization of losses (gains) of settled swaps, net	984	289	4,766	797
Total comprehensive income (loss)	14,219	(9,542 )	42,895	(27,574 )
Less: comprehensive (income) loss attributable to noncontrolling interest	(402 )	375	(1,523 )	1,113
Comprehensive income (loss) attributable to PREIT	\$13,817	\$(9,167 )	\$41,372	\$(26,461 )

See accompanying notes to the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF EQUITY

Nine Months Ended

September 30, 2013

(Unaudited)

(in thousands of dollars, except per share amounts)	Total Equity	PREIT Shareholders			Capital Contributed in Excess of Par	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Non-controlling interest
		Series A Preferred Shares, \$0.01 par	Series B Preferred Shares, \$0.01 par	Shares of Beneficial Interest, \$1.00 Par				
Balance								
December 31, 2012	\$713,229	\$46	\$35	\$56,331	\$1,247,730	\$ (20,867 )	\$ (608,634 )	\$38,588
Net income	29,382	—	—	—	—	—	28,309	1,073
Comprehensive income	13,513	—	—	—	—	13,063	—	450
Common shares issued in 2013 public offering, net	220,300	—	—	11,500	208,800	—	—	—
Shares issued upon redemption of Operating Partnership units	—	—	—	172	2,371	—	—	(2,543 )
Shares issued under employee compensation plans, net of shares retired	(1,103 )	—	—	199	(1,302 )	—	—	—
Amortization of deferred compensation	6,246	—	—	—	6,246	—	—	—
Distributions paid to common shareholders (\$0.54 per share)	(34,674 )	—	—	—	—	—	(34,674 )	—
Distributions paid to Series A preferred shareholders (\$1.5468 per share)	(7,115 )	—	—	—	—	—	(7,115 )	—
	(4,771 )	—	—	—	—	—	(4,771 )	—

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Distributions paid to Series B preferred shareholders (\$1.3827 per share)									
Noncontrolling interests: Distributions paid to Operating Partnership unit holders (\$0.54 per unit)	(1,198	)	—	—	—	—	—	—	(1,198
Amortization of historic tax credit	(1,810	)	—	—	—	—	—	—	(1,810
Other distributions to noncontrolling interests, net	(272	)	—	—	—	—	—	—	(272
Balance September 30, 2013	\$931,727	\$46	\$35	\$68,202	\$1,463,845	\$ (7,804	)	\$ (626,885 )	\$34,288