

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
Form 8-K/A
April 30, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K/A-1
CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) April 4, 2002

Pennsylvania Real Estate Investment Trust

(Exact Name of Registrant as Specified in Charter)

| | | |
|---|-----------------------------|--------------------------------------|
| Pennsylvania | 1-6300 | 23-6216339 |
| ----- | ----- | ----- |
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| | |
|---|------------|
| The Bellevue, 200 S. Broad Street, Philadelphia, Pennsylvania | 19102 |
| ----- | ----- |
| (Address of Principal Executive Offices) | (Zip Code) |

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

(Former Name or Former Address, if Changed Since Last Report)

The undersigned registrant hereby amends the following item of its Current Report on Form 8-K dated April 4, 2002, and filed on April 11, 2002, as follows:

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements of Business Acquired:

The following financial statements are attached hereto:

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- (i) Report of Arthur Andersen LLP
- (ii) Statement of Revenue and Certain Expenses of Beaver Valley Mall for the year ended December 31, 2001
- (iii) Notes to Statement of Revenue and Certain Expenses of Beaver Valley Mall

Material factors that were considered by the Registrant in assessing the acquisition of Beaver Valley Mall included (1) Beaver Valley Mall is approximately 90% occupied, (2) the quality of the anchor tenants, namely Kaufmann's, JC Penney, Sears and Boscov's, (3) the strength of other in-line tenants such as American Eagle Outfitters, Gadzooks and Victoria's Secret, (4) strong demographic factors for the mall's trade area and (5) the mall's location, visibility and proximity to Pittsburgh. After reasonable inquiry, the Registrant is not aware of any material factors relating to Beaver Valley Mall that would cause the reported financial information not to be necessarily indicative of future operating results.

(b) Pro Forma Financial Information:

The following unaudited pro forma combining financial information is attached hereto:

- (i) Pro Forma Combining Balance Sheet of the Registrant as of December 31, 2001
- (ii) Pro Forma Combining Statement of Income of the Registrant for the year ended December 31, 2001
- (iii) Notes to Management's Assumptions to Unaudited Pro Forma Combining Financial Information

(c) Exhibits:

- 23 Consent of Arthur Andersen LLP
- 99 Letter regarding Arthur Andersen LLP

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

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

Date: April 30, 2002

By: /s/ Ronald Rubin

Ronald Rubin
Chairman and Chief Executive Officer

EXHIBIT INDEX

| Exhibit No. ----- | Description of Exhibit ----- |
|----------------------|--------------------------------------|
| 23 | Consent of Arthur Andersen LLP |
| 99 | Letter regarding Arthur Andersen LLP |

BEAVER VALLEY MALL
STATEMENT OF REVENUE
AND CERTAIN EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2001
TOGETHER WITH AUDITORS' REPORT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Pennsylvania Real Estate Investment Trust:

We have audited the accompanying statement of revenue and certain expenses of Beaver Valley Mall for the year ended December 31, 2001, as described in Note 1. This financial statement is the responsibility of management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit

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to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The statement of revenue and certain expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in the Current Report on Form 8-K/A-1 of Pennsylvania Real Estate Investment Trust, as described in Note 1, and is not intended to be a complete presentation of Beaver Valley Mall's revenue and expenses.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenue and certain expenses of Beaver Valley Mall for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Philadelphia, Pennsylvania
April 12, 2002

BEAVER VALLEY MALL

STATEMENT OF REVENUE AND CERTAIN EXPENSES (NOTE 1)

FOR THE YEAR ENDED DECEMBER 31, 2001

| | (in thousands) |
|-----------------------------------|----------------|
| REVENUE: | |
| Minimum rent (Note 2) | \$ 8,013 |
| Percentage rent | 431 |
| Tenant reimbursements | 2,354 |
| Other | 89 |
| | ----- |
| Total revenue | 10,887 |
| CERTAIN EXPENSES: | |
| Property payroll and benefits | 476 |
| Real estate taxes | 828 |
| Utilities | 279 |
| Other operating expenses (Note 4) | 1,320 |
| | ----- |
| Total certain expenses | 2,903 |
| | ----- |

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REVENUE IN EXCESS OF CERTAIN EXPENSES

\$ 7,984
=====

The accompanying notes are an integral part of this financial statement.

BEAVER VALLEY MALL

NOTES TO STATEMENT OF REVENUE AND CERTAIN EXPENSES

DECEMBER 31, 2001

1. BASIS OF PRESENTATION:

The accompanying statement of revenue and certain expenses reflects the operations of Beaver Valley Mall ("Beaver Valley Mall") located in Beaver Valley, Pennsylvania. Beaver Valley Mall was acquired by PR Beaver Valley Limited Partnership ("PR Beaver Valley") from the California Public Employees' Retirement System ("CalPERS") in April 2002 for a purchase price of approximately \$60,750,000. PR Beaver Valley is indirectly wholly-owned by PREIT Associates, L.P., of which Pennsylvania Real Estate Investment Trust (the "Company") is the sole general partner.

This statement of revenue and certain expenses is to be included in the Company's Current Report on Form 8-K/A-1 as the above described transaction has been deemed significant pursuant to the rules and regulations of the Securities and Exchange Commission.

Beaver Valley Mall has an aggregate gross leasable area of approximately 1,171,000 square feet, and was approximately 90% leased as of December 31, 2001. The gross leasable area includes stores with an aggregate gross leasable area of 277,000 square feet that are not owned by PR Beaver Valley, some of which have ground lease agreements with PR Beaver Valley.

The accompanying financial statement excludes certain expenses such as interest, depreciation and amortization and other costs not directly related to the future operations of Beaver Valley Mall.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. The actual results could differ from those estimates.

2. OPERATING LEASES:

Minimum rent includes straight-line adjustments for rental revenue increases in

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accordance with generally accepted accounting principles. The aggregate rental revenue increase resulting from the straight-line adjustment for the year ended December 31, 2001 was \$58,000.

One tenant, Boscov's, had minimum rental payments greater than 10% of the total minimum rent in 2001 totaling \$800,000.

Beaver Valley Mall is leased to tenants under operating leases with expiration dates extending to the year 2018. Future minimum rentals under noncancelable operating leases, excluding tenant reimbursements of operating expenses as of December 31, 2001, are as follows:

| | |
|---------------------|--------------|
| 2002 | \$ 7,681,000 |
| 2003 | 7,141,000 |
| 2004 | 6,900,000 |
| 2005 | 6,535,000 |
| 2006 | 5,411,000 |
| 2007 and thereafter | 28,218,000 |
| | ----- |
| | \$61,886,000 |
| | ===== |

Certain leases also include provisions requiring tenants to reimburse Beaver Valley Mall for management costs and other operating expenses up to stipulated amounts.

3. RELATED PARTY TRANSACTIONS:

In 2001, Beaver Valley Mall paid management fees of \$498,000 to PREIT-RUBIN, Inc., the Company's wholly-owned property management affiliate. Beaver Valley Mall and PREIT-RUBIN, Inc. were not related parties prior to PR Beaver Valley's acquisition of Beaver Valley Mall in 2002. Such management fees have been excluded from this statement because they will not be incurred by Beaver Valley Mall in the future.

4. COMMITMENTS:

As of December 31, 2001, Beaver Valley Mall was obligated under a ground lease agreement extending to 2066 for a portion of the land on which Beaver Valley Mall is situated. This agreement provided for annual payments of \$28,000.

Concurrent with its acquisition of Beaver Valley Mall, PR Beaver Valley also purchased this portion of the land for an additional \$500,000. As a result of this purchase, subsequent to the acquisition date, there will be no further payments due under the ground lease agreement. Accordingly, the ground lease rent expense for 2001 was excluded from operating expenses in the accompanying financial statement.

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The following sets forth the pro forma combining balance sheet of Pennsylvania Real Estate Investment Trust (the "Company" or "Registrant") as of December 31, 2001 and the pro forma combining income statement for the year ended December 31, 2001 to give effect to the acquisition of Beaver Valley Mall on April 4, 2002.

The unaudited pro forma combining financial statements should be read in conjunction with the historical financial statements of the Registrant and Beaver Valley Mall and the related notes thereto. In management's opinion, all adjustments necessary to reflect the effects of the transaction have been made.

The pro forma combining balance sheet as of December 31, 2001 presents combined financial information as if the acquisition of Beaver Valley Mall had taken place on December 31, 2001. The pro forma combining statement of income for the year ended December 31, 2001 presents combined financial information as if the acquisition of Beaver Valley Mall had taken place on January 1, 2001. PR Beaver Valley Limited Partnership, which is wholly-owned by PREIT Associates, L.P., of which the Registrant is the sole general partner, purchased Beaver Valley Mall on April 4, 2002 for a purchase price of \$60,750,000. The purchase price was financed through mortgage and bank loan borrowings of \$48,000,000 and \$10,000,000, respectively, and the remainder was paid in cash. This acquisition was accounted for using the purchase method of accounting.

The pro forma combining financial information is unaudited and is not necessarily indicative of what the actual combined financial position or combined results of operations of the Registrant would have been had the transaction described above been consummated as of the dates indicated, nor does it purport to represent the future financial position and the results of operations of the Registrant.

Pennsylvania Real Estate Investment Trust
Pro Forma Combining Balance Sheets
As of December 31, 2001

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

| | Company Historical | Beaver Valley Mall Acquisition | |
|---|---|--------------------------------------|--|
| <hr style="border-top: 1px dashed black;"/> | | | |
| Assets | | | |
| Investments in real estate, at cost: | | | |
| Retail properties | \$ 347,269 | \$ 61,326 | |
| Multifamily properties | 254,138 | - | |
| Industrial properties | 2,504 | - | |
| Land & properties under development | 46,549 | - | |
| | <hr style="border-top: 1px dashed black;"/> | | |
| Total investments in real estate | 650,460 | 61,326 | |
| Less: Accumulated depreciation | 112,424 | - | |
| | <hr style="border-top: 1px dashed black;"/> | | |
| | 538,036 | 61,326 | |

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| | | |
|---|------------|-----------|
| Investments in and advances to partnerships and joint ventures, at equity | 13,680 | - |
| | ----- | ----- |
| | 551,716 | 61,326 |
| Other assets: | | |
| Cash and cash equivalents | 10,258 | (5,949) |
| Rents and sundry receivables (net of allowance for doubtful accounts of \$727) | 10,293 | - |
| Deferred costs, prepaid real estate taxes and expenses, net | 30,361 | 2,623 |
| | ----- | ----- |
| | \$ 602,628 | \$ 58,000 |
| | ===== | ===== |
| Liabilities and Shareholders' Equity | | |
| Mortgage notes payable | \$ 257,873 | \$ 48,000 |
| Bank loans payable | 98,500 | 10,000 |
| Construction loan payable | 4,000 | - |
| Tenants' deposits and deferred rents | 3,908 | - |
| Accrued expenses and other liabilities | 21,294 | - |
| | ----- | ----- |
| | 385,575 | 58,000 |
| | ----- | ----- |
| Minority interest | 36,768 | - |
| | ----- | ----- |
| Shareholders' equity: | | |
| Shares of beneficial interest, \$1 par; authorized unlimited; issued and outstanding 15,876 | 15,876 | - |
| Capital contributed in excess of par | 198,398 | - |
| Deferred compensation | (1,386) | - |
| Accumulated other comprehensive loss | (3,520) | - |
| Distributions in excess of net income | (29,083) | - |
| | ----- | ----- |
| Total shareholders' equity | 180,285 | - |
| | ----- | ----- |
| | \$ 602,628 | \$ 58,000 |
| | ===== | ===== |

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

Pennsylvania Real Estate Investment Trust
Pro Forma Combining Statements Of Income
For the year ended December 31, 2001

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

| | Company Historical | Beaver Valley Mall Historical (A) | Pro Forma Adjustments | Comp Pro |
|---------------------|-----------------------|---|-----------------------------|-------------|
| | ----- | ----- | ----- | ----- |
| Revenues | | | | |
| Real estate revenue | | | | |
| Base rent | \$ 84,689 | \$ 8,013 | \$ - | \$ - |

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| | | | | |
|--|-----------|----------|------------|----|
| Percentage rent | 1,787 | 431 | - | |
| Expense reimbursements | 10,215 | 2,354 | - | |
| Lease termination revenue | 1,162 | - | - | |
| Other real estate revenue | 4,032 | 89 | - | |
| ----- | | | | |
| Total real estate revenue | 101,885 | 10,887 | | 1 |
| Management fees | 11,336 | - | - | |
| Interest and other income | 361 | - | - | |
| ----- | | | | |
| Total revenues | 113,582 | 10,887 | | 1 |
| ----- | | | | |
| Expenses | | | | |
| Property operating expenses: | | | | |
| Property payroll and benefits | 7,077 | 476 | - | |
| Real estate and other taxes | 7,750 | 828 | - | |
| Utilities | 4,201 | 279 | - | |
| Other operating expenses | 14,374 | 1,320 | - | |
| ----- | | | | |
| Total property operating expenses | 33,402 | 2,903 | - | |
| Depreciation and amortization | 17,974 | - | 1,594 (B) | |
| General and administrative expenses: | | | | |
| Corporate payroll and benefits | 13,286 | - | - | |
| Other general and administrative expenses | 10,291 | - | - | |
| ----- | | | | |
| Total general and administrative expenses | 23,577 | - | - | |
| Interest expense | 24,963 | - | 4,123 (C) | |
| ----- | | | | |
| Total expenses | 99,916 | 2,903 | 5,717 | 1 |
| ----- | | | | |
| Income before equity in | | | | |
| unconsolidated entities, gains on sales in real estate and minority interest | 13,666 | 7,984 | (5,717) | |
| Equity in income of partnerships and joint ventures | 6,540 | - | - | |
| Gains on sales of interests in real estate | 2,107 | - | - | |
| ----- | | | | |
| Income before minority interest | 22,313 | 7,984 | (5,717) | |
| Minority interest in operating partnership | (2,524) | (903) | 647 (B, C) | |
| ----- | | | | |
| Net income | \$ 19,789 | \$ 7,081 | \$ (5,070) | \$ |

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| | | |
|--|---------|----|
| Basic income per share | \$ 1.35 | \$ |
| Diluted income per share | \$ 1.35 | \$ |
| Weighted average number of shares outstanding: | | |
| Basic | 14,657 | |
| Diluted | 14,684 | |

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

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
 NOTES TO MANAGEMENT'S ASSUMPTIONS TO
 UNAUDITED PRO FORMA COMBINING FINANCIAL INFORMATION

1. Basis of Presentation

Pennsylvania Real Estate Investment Trust (the "Registrant") is a fully integrated, self-administered and self-managed real estate investment trust which acquires, rehabilitates, develops and operates retail and multifamily properties. The Registrant's interest in its real estate properties is held through PREIT Associates, L.P. (the "Operating Partnership").

2. Adjustments to Pro Forma Combining Balance Sheet

(A) To record the acquisition of Beaver Valley Mall as follows:

| | |
|--|--------------|
| Purchase price(1) | \$61,326,000 |
| Escrows and other credits received at settlement | \$ 2,623,000 |
| Mortgage borrowing | \$48,000,000 |
| Bank loan borrowing | \$10,000,000 |
| Cash payment | \$ 5,949,000 |

(1) Includes the purchase price of Beaver Valley Mall of \$60,750,000, the purchase price of a portion of land on which the mall is situated of \$500,000 and estimated closing costs of \$76,000.

2. Adjustments to Pro Forma Combining Statement of Income

(A) To record the revenue and certain operating expenses associated with the operations of Beaver Valley Mall.

(B) To record additional depreciation expense based on a depreciable basis of \$47,809,000 and an estimated useful life of 30 years.

(C) To record additional interest expense as follows:

| | |
|---|-------------|
| Mortgage borrowing of \$48,000,000 at 7.36% | \$3,518,000 |
|---|-------------|

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| | |
|--|-------------|
| Bank borrowing of \$10,000,000 at 5.84% | 584,000 |
| Amortization of deferred financing costs related to the borrowings noted above | 21,000 |
| | ----- |
| | \$4,123,000 |
| | ===== |