

WELLS REAL ESTATE INVESTMENT TRUST INC
Form 10-Q
November 08, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2006

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 0-25739

WELLS REAL ESTATE INVESTMENT TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

58-2328421
(I.R.S. Employer
Identification Number)

6200 The Corners Parkway

Norcross, Georgia 30092

(Address of principal executive offices)

(Zip Code)

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(770) 449-7800

(Registrant's telephone number, including area code)

N/A

(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 requirements for the past 90 days. Yes No

Indicate by check mark whether the 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 (check one).

Large Accelerated filer Accelerated filer Non-Accelerated filer
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares outstanding of the registrant's

only class of common stock, as of October 31, 2006: 461,846,838 shares

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-Q of Wells Real Estate Investment Trust, Inc. (Wells REIT or the Registrant) other than historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend for all such forward-looking statements to be covered by the applicable safe harbor provisions for forward-looking statements contained in those acts. Such statements include, in particular, statements about our plans, strategies, and prospects and are subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as may, will, expect, intend, anticipate, estimate, believe, continue, or other similar words. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this report is filed with the Securities and Exchange Commission. We make no representations or warranties (express or implied) about the accuracy of any such forward-looking statements contained in this Form 10-Q, and we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Any such forward-looking statements are subject to unknown risks, uncertainties, and other factors and are based on a number of assumptions involving judgments with respect to, among other things, future economic, competitive, and market conditions, all of which are difficult or impossible to predict accurately. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, make distributions to stockholders, and maintain the value of our real estate properties, may be significantly hindered. See Item 1A in Wells REIT s Annual Report on Form 10-K for the year ended December 31, 2005 for a discussion of some of the risks and uncertainties, although not all risks and uncertainties, that could cause actual results to differ materially from those presented in our forward-looking statements.

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PART I. FINANCIAL STATEMENTS

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

The information furnished in the accompanying consolidated balance sheets and related consolidated statements of income, stockholders' equity, and cash flows reflects all adjustments, that are, in management's opinion, necessary for a fair and consistent presentation of the aforementioned financial statements.

The accompanying financial statements should be read in conjunction with the notes to Wells REIT's financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this report on Form 10-Q and with Wells REIT's Annual Report on Form 10-K for the year ended December 31, 2005. Wells REIT's results of operations for the three months and nine months ended September 30, 2006 are not necessarily indicative of the operating results expected for the full year.

Table of Contents**WELLS REAL ESTATE INVESTMENT TRUST, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

	(Unaudited)	
	September 30,	December 31,
	2006	2005
Assets:		
Real estate assets, at cost:		
Land	\$ 637,069	\$ 619,664
Buildings and improvements, less accumulated depreciation of \$372,462 and \$309,406 as of September 30, 2006 and December 31, 2005, respectively	3,117,422	3,117,247
Intangible lease assets, less accumulated amortization of \$131,436 and \$104,299 as of September 30, 2006 and December 31, 2005, respectively	225,728	235,410
Construction in progress	30,435	20,734
Total real estate assets	4,010,654	3,993,055
Investments in unconsolidated joint ventures	57,231	58,817
Cash and cash equivalents	37,268	48,973
Due from unconsolidated joint ventures	950	931
Due from affiliate	180	215
Tenant receivables, net of allowance for doubtful accounts of \$1,518 and \$689 as of September 30, 2006 and December 31, 2005, respectively	108,937	98,259
Prepaid expenses and other assets	19,775	22,124
Deferred financing costs, less accumulated amortization of \$6,460 and \$5,099 as of September 30, 2006 and December 31, 2005, respectively	9,816	10,233
Deferred lease costs, less accumulated amortization of \$72,125 and \$51,857 as of September 30, 2006 and December 31, 2005, respectively	184,983	165,958
Total assets	\$ 4,429,794	\$ 4,398,565
Liabilities:		
Lines of credit and notes payable	\$ 1,234,519	\$ 1,036,312
Accounts payable, accrued expenses, and accrued capital expenditures	73,686	68,057
Due to affiliates	918	4,167
Deferred income	21,597	22,301
Intangible lease liabilities, less accumulated amortization of \$39,807 and \$34,431 as of September 30, 2006 and December 31, 2005, respectively	95,419	106,158
Total liabilities	1,426,139	1,236,995
Commitments and Contingencies		
Minority Interest	5,892	5,408
Redeemable Common Stock	104,713	167,015
Stockholders Equity:		
Common stock, \$0.01 par value; 900,000,000 shares authorized; 462,093,513 shares issued and outstanding as of September 30, 2006; and 469,423,177 shares issued and outstanding as of December 31, 2005	4,621	4,694
Additional paid-in capital	3,327,530	3,391,998

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Cumulative distributions in excess of earnings	(334,388)	(240,530)
Redeemable common stock	(104,713)	(167,015)
Total stockholders' equity	2,893,050	2,989,147
Total liabilities, minority interest, redeemable common stock, and stockholders' equity	\$ 4,429,794	\$ 4,398,565

See accompanying notes.

Table of Contents**WELLS REAL ESTATE INVESTMENT TRUST, INC.****CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

	(Unaudited)		(Unaudited)	
	Three Months Ended		Nine Months Ended	
	September 30, 2006	2005	September 30, 2006	2005
Revenues:				
Rental income	\$ 112,004	\$ 108,430	\$ 332,449	\$ 327,298
Tenant reimbursements	34,171	32,125	97,566	95,752
Lease termination income	8,439		9,784	4,308
	154,614	140,555	439,799	427,358
Expenses:				
Property operating costs	50,460	47,430	146,109	137,184
Asset and property management fees:				
Related-party	6,158	5,285	18,028	16,459
Other	1,202	1,377	3,945	4,176
Depreciation	23,311	22,046	68,910	65,679
Amortization	16,687	16,223	51,141	48,374
Lease termination expense	2,745	64	4,170	1,236
General and administrative	5,027	3,358	13,707	12,262
Casualty and impairment losses on real estate assets			100	16,093
	105,590	95,783	306,110	301,463
Real estate operating income	49,024	44,772	133,689	125,895
Other income (expense):				
Interest expense	(15,582)	(13,058)	(45,120)	(36,128)
Interest and other income	949	604	1,930	5,125
Equity in income of unconsolidated joint ventures	461	538	1,623	14,354
	(14,172)	(11,916)	(41,567)	(16,649)
Income from continuing operations before minority interest	34,852	32,856	92,122	109,246
Minority interest in earnings of consolidated entities	(158)	(154)	(492)	(442)
Income from continuing operations	34,694	32,702	91,630	108,804
Discontinued operations:				
Operating income	120	848	1,741	14,235
Gain on sale of real estate assets	13,434		14,618	177,386
Income from discontinued operations	13,554	848	16,359	191,621
Net income	\$ 48,248	\$ 33,550	\$ 107,989	\$ 300,425

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Per share information - basic and diluted:								
Income from continuing operations	\$	0.07	\$	0.07	\$	0.20	\$	0.23
Income from discontinued operations		0.03		0.00		0.03		0.41
Net income available to common stockholders	\$	0.10	\$	0.07	\$	0.23	\$	0.64
Weighted-average common shares outstanding								
		459,656		461,657		461,554		466,482

See accompanying notes.

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WELLS REAL ESTATE INVESTMENT TRUST, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2005
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED)

(in thousands, except per share amounts)

	Common Stock		Additional Paid-In Capital	Cumulative Distributions		Redeemable Common Stock	Other Comprehensive Income	Total Stockholders Equity
	Shares	Amount		in Excess of Earnings				
Balance, December 31, 2004	473,486	\$ 4,735	\$ 4,203,918	\$ (283,184)	\$ (225,955)	\$	86	\$ 3,699,600
Issuance of common stock	18,834	188	165,331					