

Edgar Filing: CENTER TRUST INC - Form 10-Q

CENTER TRUST INC  
Form 10-Q  
August 14, 2001

-----  
-----  
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 June 30, 2001

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 1-12588

-----  
CENTER TRUST, INC.  
(Exact name of registrant as specified in charter)

Maryland  
(State or other jurisdiction  
of incorporation or organization)

95-4444963  
(I.R.S. Employer  
Identification Number)

3500 Sepulveda Boulevard, Manhattan Beach, California 90266  
(Address of principal executive offices) (Zip Code)

(310) 546-4520  
(Registrant's telephone number, including area code)

-----  
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 at least the past 90 days. YES  NO

As of August 10, 2001, 27,622,072 shares of Common Stock, Par Value \$.01 Per  
Share, were outstanding.

# Edgar Filing: CENTER TRUST INC - Form 10-Q

CENTER TRUST, INC.

FORM 10-Q

INDEX

	Page ----
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements.....	
Consolidated Balance Sheets as of June 30, 2001 (unaudited) and December 31, 2000.....	1
Consolidated Statements of Operations for the three and six months ended June 30, 2001 and 2000 (unaudited).....	2
Consolidated Statements of Cash Flows for the six months ended June 30, 2001 and 2000 (unaudited).....	3
Notes to Consolidated Financial Statements (unaudited).....	4
Management's Discussion and Analysis of Financial Condition and	
Item 2. Results of Operations.....	6
PART II OTHER INFORMATION.....	12
SIGNATURES.....	13

CENTER TRUST, INC.

CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

	June 30, 2001	December 31, 2000
	-----	-----
	(unaudited)	
ASSETS		
Rental properties.....	\$ 729,191	\$ 776,667
Accumulated depreciation and amortization.....	(140,650)	(136,828)
	-----	-----
Rental properties, net.....	588,541	639,839
Cash and cash equivalents.....	6,049	6,164
Tenant receivables, net.....	7,239	11,920
Other receivables.....	6,251	5,603
Restricted cash securities.....	9,656	9,531
Deferred charges, net.....	16,045	18,030
Other assets.....	3,090	3,492
	-----	-----
TOTAL.....	\$ 636,871	\$ 694,579
	=====	=====

## Edgar Filing: CENTER TRUST INC - Form 10-Q

### LIABILITIES AND STOCKHOLDERS' EQUITY

<b>LIABILITIES:</b>			
Secured debt.....	\$ 405,599		\$ 318,052
7 1/2% Convertible subordinated debentures.....	--		128,548
Accrued dividends and distributions.....	1,173		6,035
Accrued interest.....	1,087		5,827
Accounts payable and other accrued expenses.....	10,652		10,161
Accrued construction costs.....	629		1,060
Tenant security and other deposits.....	1,703		1,797
	-----		-----
Total liabilities.....	420,843		471,480
	-----		-----
<b>MINORITY INTERESTS:</b>			
Operating Partnership (1,339,644 and 2,015,692 units issued as of June 30, 2001 and December 31, 2000, respectively).....	11,796		15,075
Other minority interests.....	1,366		1,620
	-----		-----
Total minority interests.....	13,162		16,695
	-----		-----
<b>COMMITMENTS AND CONTINGENCIES:</b>			
<b>STOCKHOLDERS' EQUITY:</b>			
Common stock (\$.01 par value, 100,000,000 shares authorized; 27,622,072 and 26,721,226 shares issued and outstanding as of June 30, 2001 and December 31, 2000, respectively).....	276		266
Additional paid-in capital.....	362,798		359,419
Accumulated distributions and deficit.....	(160,208)		(153,281)
	-----		-----
Total stockholders' equity.....	202,866		206,404
	-----		-----
<b>TOTAL.....</b>	<b>\$ 636,871</b>		<b>\$ 694,579</b>
	=====		=====

See Notes to Consolidated Financial Statements.

1

CENTER TRUST, INC.

### CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except per share amounts) (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
<b>REVENUES:</b>				
Rental revenues.....	\$17,272	\$24,452	\$35,011	\$49,661
Expense reimbursements.....	5,964	7,715	11,906	15,425
Percentage rents.....	173	661	694	994

Edgar Filing: CENTER TRUST INC - Form 10-Q

Other income.....	1,108	1,512	2,534	3,101
	-----	-----	-----	-----
Total revenues.....	24,517	34,340	50,145	69,181
	-----	-----	-----	-----
EXPENSES:				
Interest.....	8,443	15,009	18,131	29,700
Property Operating Costs:				
Common Area.....	4,513	5,146	8,879	10,272
Property taxes.....	2,390	3,340	4,910	6,674
Leasehold rentals.....	269	361	534	725
Marketing.....	411	314	594	532
Other operating.....	1,149	838	2,330	1,941
Depreciation and amortization.....	5,175	6,314	10,414	12,783
Reorganization Costs.....	2,613	--	2,613	--
General and administrative.....	1,646	1,324	3,011	2,631
	-----	-----	-----	-----
Total expenses.....	26,609	32,646	51,416	65,258
	-----	-----	-----	-----
(LOSS) INCOME FROM OPERATIONS BEFORE OTHER ITEMS.....	(2,092)	1,694	(1,271)	3,923
(LOSS) GAIN ON SALE OF RENTAL PROPERTIES...	(3,279)	9,149	(2,379)	11,724
MINORITY INTERESTS:				
Operating Partnership.....	333	(675)	281	(821)
Other minority interests.....	(140)	(76)	(169)	(150)
	-----	-----	-----	-----
(LOSS) INCOME BEFORE EXTRAORDINARY ITEM....	(5,178)	10,092	(3,538)	14,676
EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT.....	(566)	--	(1,385)	(1,864)
	-----	-----	-----	-----
NET (LOSS) INCOME.....	\$ (5,744)	\$10,092	\$ (4,923)	\$12,812
	=====	=====	=====	=====
BASIC AND DILUTED INCOME PER SHARE:				
(Loss) Income before extraordinary item....	\$ (0.19)	\$ 0.38	\$ (0.13)	\$ 0.55
Extraordinary loss on early extinguishment of debt.....	(0.02)	--	(0.05)	(0.07)
	-----	-----	-----	-----
Net (Loss) Income.....	(0.21)	\$ 0.38	(0.18)	\$ 0.48
	=====	=====	=====	=====
Weighted Average Basic and Diluted Shares Outstanding.....	27,372	26,686	27,232	26,667
	=====	=====	=====	=====

See Notes to Consolidated Financial Statements

2

CENTER TRUST, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

Six Months Ended  
June 30,  
-----  
2001      2000  
-----

## Edgar Filing: CENTER TRUST INC - Form 10-Q

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income.....	\$ (4,923)	\$ 12,812
Adjustment to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization of rental properties.....	10,414	12,783
Amortization of deferred financing costs.....	2,047	1,712
Extraordinary loss on early extinguishment of debt.....	1,385	1,864
Net loss on sale of rental properties.....	2,379	(11,724)
Minority interests in operations.....	(112)	971
Net changes in operating assets and liabilities.....	(3,550)	(13,063)
	-----	-----
Net cash provided by operating activities.....	7,640	5,355
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and development costs.....	(4,458)	(7,790)
Net proceeds from sale of rental property.....	45,074	36,109
	-----	-----
Net cash provided by investing activities.....	40,616	28,319
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable.....	(139,023)	(2,273)
Proceeds from mortgages.....	--	17,390
Repayment of mortgages.....	--	(17,390)
Borrowings on secured line of credit.....	133,369	190,250
Repayment of secured line of credit.....	(35,347)	(200,191)
Proceeds from the sale of common stock.....	--	344
Increase in restricted cash.....	(125)	(4,596)
Dividends to shareholders.....	(6,678)	(15,191)
Distributions to minority interests.....	(567)	(1,240)
	-----	-----
Net cash used in financing activities.....	(48,371)	(32,897)
	-----	-----
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS.....	(115)	777
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD.....	6,164	5,204
	-----	-----
CASH AND CASH EQUIVALENTS, AT END OF PERIOD.....	\$ 6,049	\$ 5,981
	=====	=====

See Notes to Consolidated Financial Statements

3

CENTER TRUST, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

#### 1. Basis Of Presentation

Center Trust, Inc., (the "Company"), a Maryland Corporation, is a self-administered and self-managed real estate investment trust ("REIT"). The Company engages in the ownership, management, leasing, acquisition, development and redevelopment of unenclosed retail shopping centers in the western United States. As of June 30, 2001 the Company owned 35 retail shopping centers (the "Properties") comprising 6.4 million square feet of total shopping center gross leasable area ("GLA").

The accompanying financial statements and related notes of the Company are unaudited; however, they have been prepared in accordance with generally

## Edgar Filing: CENTER TRUST INC - Form 10-Q

accepted accounting principles for interim financial reporting and the instructions to Form 10-Q and the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under generally accepted accounting principles have been condensed or omitted pursuant to such rule. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. These financial statements should be read in conjunction with the Company's Form 10-K for the year ended December 31, 2000.

### 2. Secured Debt

On January 16, 2001, the Company repaid in full its 7 1/2% Convertible Subordinated Debentures. The outstanding balance of \$128.5 million was repaid with proceeds from the Company's Secured Credit Facility.

Subsequent to June 30, 2001, the Company refinanced an existing mortgage on North Mountain Village, located in Phoenix, Arizona. The \$7.1 million mortgage bears interest at 7.68% and matures in 2011

### 3. Property Disposition

In March 2001, the Company sold three community shopping centers and one single tenant facility for a combined sales price of \$38.4 million. The assets sold included Westgate North Shopping Center, a 104,000 square foot shopping center located in Tacoma, Washington, Center of El Centro, a 179,000 square foot shopping center located in El Centro, California, Madera Marketplace a 169,000 square foot shopping center located in Madera, California, and K-Mart Madera, a 86,000 square foot single tenant facility, located in Madera, California. After repayment of debt of \$16.9 million, net proceeds of \$17 million were used to reduce the outstanding balance on the Company's Credit Facility. During the fourth quarter of 2000, the Company recorded a \$4.8 million impairment of assets held for sale, a result of the anticipated sales of the Westgate North Shopping Center and the Center of El Centro. After consideration of the fourth quarter impairment loss adjustment, the Company recorded a gain on the sale of assets of \$0.9 million during 2001. In addition, the Company recorded an extraordinary loss of \$0.8 million for the early extinguishment of debt related to the payment of certain prepayment penalties and elimination of certain deferred costs.

During the 2nd quarter of 2001, the Company sold one community shopping center and one single tenant facility. The assets sold were K-Mart Rocklin, a 86,000 single tenant facility located in Rocklin, California and Marshalls' Plaza, a 79,000 square foot shopping center located in Modesto, California. After repayment of debt of \$1.4 million, net proceeds of \$8.3 million were used to reduce the outstanding balance on the Company's Credit Facility. The Company recorded a loss of \$3.3 million on the sale. In addition, the Company recorded an extraordinary loss of \$566,000 for the early extinguishment of debt related to the payment of certain prepayment penalties and elimination of certain deferred costs.

4

CENTER TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

### 4. Per Share Data

In accordance with SFAS No. 128 (Earnings Per Share), basic earnings per share ("EPS") is based on the weighted average number of shares of common

## Edgar Filing: CENTER TRUST INC - Form 10-Q

stock outstanding during the period and diluted EPS is based on the weighted average number of shares of common stock outstanding combined with the incremental weighted average shares that would have been outstanding if all dilutive potential common shares had been issued as of the beginning of the period. The weighted average number of shares of common stock used in the computation of basic and diluted EPS for the three and six-month periods ended June 30, 2001 were 28,962,000 and 28,850,000, respectively. The weighted average number of common shares for the same periods ended June 30, 2000 were 28,446,000 and 28,379,000, respectively. Units held by limited partners in the Operating Partnership may be exchanged for shares of common stock of the Company on a one-for-one basis, in certain circumstances, and therefore are not dilutive.

On July 20, 2001, the Company paid a \$0.04 dividend per share to shareholders of record as of July 2, 2001. Year-to-date the Company has paid dividends of \$0.08 per share or \$2.2 million.

### 5. Reorganization Costs

At the end of the second quarter of 2001, the Company recorded a non-recurring Reorganization expense of \$2.6 million. The expense consists of employee severance and other related costs. Substantially all amounts have been paid as of August, 2001.

5

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

### Overview

The following discussion should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

### Forward Looking Statements

The following discussion of financial condition and Results of Operations contains certain forward-looking statements that are subject to risk and uncertainty. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. Forward looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described, or that they will happen at all. You can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "would," "seeks," "approximately," "intends," "plans," "pro forma" "estimates" or "anticipates" or the negative of these words and phrases or similar words or phrases. You can also identify forward-looking statements by discussions of strategy, plans or intentions. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- . defaults on or non-renewal of leases by tenants;
- . increased interest rates and operations costs;

## Edgar Filing: CENTER TRUST INC - Form 10-Q

- . our failure to obtain necessary outside financing;
- . difficulties in identifying properties to acquire and completing acquisitions;
- . difficulties in disposing of properties;
- . our failure to successfully operate acquired properties and operations;
- . our failure to successfully develop property;
- . our failure to maintain our status as a REIT;
- . environmental uncertainties and risks related to natural disasters;
- . financial market fluctuations; and
- . changes in real estate and zoning laws and increases in real property tax rates.

Our success also depends upon economic trends generally, as well as income tax laws, governmental regulation, legislation, population changes and other matters discussed above in section entitled "Risk Factors." We caution you, however, that any list of risk factors may not be exhaustive.

### Results of Operations

Comparison of the three months ended June 30, 2001 to the three months ended June 30, 2000.

Rental revenues decreased by \$7.2 million to \$17.3 million for the three months ended June 30, 2001 from \$24.5 million for the three months ended June 30, 2000. The entire decrease was due to the sale of 16 community shopping centers and four single tenant facilities, for a total of 20 properties sold since June 30, 2000.

6

Property operating costs decreased by 1.3 million to \$8.7 million for the three months ended June 30, 2001 from \$10.0 million for the three months ended June 30, 2000. Substantially all of the decrease was a result of decreased operating costs from the sale of the properties previously discussed.

Interest expense decreased to \$8.4 million for the three months ended June 30, 2001 from \$15.0 million for the three months ended June 30, 2000. The decrease resulted from lower average debt outstanding and lower effective interest rates in the second quarter of 2001 compared to the same period in 2000. The lower average debt outstanding was due to the repayment of the \$128.5 million 7 1/2% Convertible Subordinated Debentures and proceeds from the sale of assets during the later half of 2000 and the first half of 2001, which were used to reduce the Company's Secured Credit Facility.

General and Administrative costs increased slightly by \$0.3 million from \$1.3 million for the three months ended June 30, 2000 to \$1.6 million for the three months ended June 30, 2001.

At the end of the second quarter of 2001, the Company recorded a non-recurring Reorganization expense of \$2.6 million. The expense consists of employee severance and other related costs. The Company anticipates that cost savings related to the reorganization will be realized during the remaining quarters of 2001.



## Edgar Filing: CENTER TRUST INC - Form 10-Q

The Company reported a net loss of \$5.7 million for the three months ended June 30, 2001 compared to net income of \$10.1 million for the same period ended June 30, 2001. The net loss was primarily due to lower net operating income of \$8.3 million from the sale of properties, \$2.6 million in reorganization costs and a \$3.3 million loss on the sale of assets partially offset by lower interest of \$8.4 million as noted above. The gain in 2000 resulted primarily from a \$9.1 million gain on the sale of assets.

Comparison of the six months ended June 30, 2001 to the six months ended June 30, 2000.

Rental revenues decreased by \$14.7 million to \$35.0 million for the six months ended June 30, 2001 from \$49.7 million for the six months ended June 30, 2000. The decrease of \$14.3 million is due to the sale of 16 community shopping centers and four single tenant facilities, for a total of 20 properties sold since June 30, 2000.

Property operating costs decreased by \$2.9 million to \$17.2 million for the six months ended June 30, 2001 from \$20.1 million for the six months ended June 30, 2000. Substantially all of the decrease was a result of decreased property taxes and operating costs from the sale of the properties previously discussed.

Interest expense decreased to \$18.1 million for the six months ended June 30, 2001 from \$29.7 million for the six months ended June 30, 2000. The decrease is the result of lower average debt outstanding and lower interest rates as previously discussed.

General and Administrative costs increased slightly by \$0.4 million from \$2.6 million for the six months ended June 30, 2000 to \$3.0 million for the six months ended June 30, 2001.

The Company reported a net loss of \$4.9 million for the six months ended June 30, 2001 compared to net income of \$12.8 million for the same period ended June 30, 2001. The net loss was primarily due to lower net operating income of \$15.6 million from the sale of properties, \$2.6 million in reorganization costs and a \$2.4 million loss on the sale of assets partially offset by lower interest of \$18.1 million as noted above. The gain in 2000 resulted primarily from a \$11.7 million gain on the sale of assets.

7

### Selected Property Financial Information

Net operating income (defined as revenues, less property operating costs) for the Company's properties is as follows:

	Six Months Ended June 30,	
	2001	2000
Retail Properties (35 in 2001 and 55 in 2000):		
Regional Malls.....	\$ 8,240	\$ 8,623
Community Centers.....	23,368	38,007
Single Tenants.....	810	1,746

Edgar Filing: CENTER TRUST INC - Form 10-Q

Other income.....	480	661
	-----	-----
Net Operating Income.....	\$32,898	\$49,037
	=====	=====

The following summarizes the percentage of leased GLA (excluding non-owned GLA) as of:

	June 30, 2001	December 31, 2000
	-----	-----
Retail Properties (35 in 2001 and 41 in 2000):		
Community Centers.....	92.1%	93.1%
Regional Malls.....	93.6	90.9
Single Tenants.....	100.0	100.0
Aggregate Portfolio.....	92.7	93.3

Funds from Operations

The Company considers funds from operations ("FFO") to be an alternative measure of the performance of an equity REIT since such measure does not recognize depreciation and amortization expenses as operating expenses. FFO is defined, as outlined in the October 1999 White Paper, by the National Association of Real Estate Investment Trusts ("NAREIT") as net income plus depreciation and amortization of real estate, less gains or losses on sales of properties. Additionally, the definition also permits FFO to be adjusted for significant non-recurring items. Funds from operations do not represent cash flows from operations as defined by generally accepted accounting principles and should not be considered as an alternative to those indicators in evaluating the Company's operating performance or liquidity. Further, the methodology for computing FFO utilized by the Company may differ from that utilized by other equity REITs and, accordingly may not be comparable to such other REITs.

8

The Company computes FFO on both a basic and diluted basis. The diluted basis assumes the conversion of the convertible and exchangeable debentures into shares of common stock. The following table summarizes the Company's computation of FFO and provides certain additional disclosures (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	-----	-----	-----	-----
	2001	2000	2001	2000
	-----	-----	-----	-----
FUNDS FROM OPERATIONS				
Net (loss) income.....	\$ (5,744)	\$ 10,092	\$ (4,923)	\$ 12,812
Adjustments to reconcile net income to funds from operations:				
Depreciation and Amortization:				
Buildings and improvements.....	3,212	4,327	6,444	8,663

## Edgar Filing: CENTER TRUST INC - Form 10-Q

Tenant improvements and allowances.....	1,138	1,271	2,234	2,700
Leasing costs.....	605	653	1,313	1,299
Minority Interests.....	(377)	571	(496)	630
Extraordinary loss--early extinguishment of debt.....	566	--	1,385	1,864
Loss (Gain) on Sale of Assets.....	3,279	(9,149)	2,379	(11,724)
Reorganization Costs.....	2,613	--	2,613	--
Other.....	377	354	538	817
	-----	-----	-----	-----
Funds from operations, basic and diluted.....	\$ 5,669	\$ 8,119	\$11,487	\$ 17,061
	=====	=====	=====	=====

Funds from operations, on a basic basis, decreased to \$5.7 million for the three months ended June 30, 2001, as compared to \$8.1 million for the same period in 2000. Funds from operations decreased to \$11.5 million for the six months ended June 30, 2001, as compared to \$17.1 million for the same period in 2000. The three and six month decreases in funds from operations are principally a result of the reasons stated above under Results of Operations, adjusted for the items outlined in the above table.

### Liquidity Sources and Requirements

The primary focus of the Company during the first half of 2001 was to repay the 7 1/2% Convertible Subordinated Debentures and to continue to strengthen its financial stability and flexibility. Through a series of asset sales and debt refinancing transactions, as well as a modification of the Company's Credit Facility, the Company was able to successfully repay its 7 1/2% Convertible Debentures which matured on January 15, 2001. Further, with the sale of the three community shopping centers and a single tenant facility in 2001, the Company reduced its outstanding balance on its Secured Credit Facility to a level below 70% loan to value, which reduced the interest rate paid on the outstanding balance to 250 basis points over LIBOR by March 31, 2000. Asset sales during the second quarter have further enabled the Company to reduce its outstanding balance by \$8.3 million. This combined with the reduction of the dividend, discussed below, provides the Company with the anticipated cash and financial flexibility required to meet its capital requirements in the near future.

During 2001, the maximum availability under the Credit Facility was reduced from \$193 million to \$170 million as a result of the sale of assets which were previously included as collateral within the pool of assets securing the Credit Facility. The Company currently has availability of approximately \$7 million as of June 30, 2001.

The Company announced that it will pay a quarterly dividend of \$0.04 per share for both the first and second quarters of 2001, which equates to an annual dividend rate of \$0.16 per share and approximates the Company's minimum required distribution to maintain its REIT status. This compares to the annual dividend of \$0.84 paid

in the year 2000. The dividend reduction was necessitated by the contraction in the Company's asset base as a result of the sale of over \$290 million in assets of the last twelve months. The dividend reduction will allow the Company to maximize its retention of capital, reduce its leverage level, and provide financial flexibility to appropriately evaluate value-added redevelopment opportunities within its portfolio, while maintaining its REIT

## Edgar Filing: CENTER TRUST INC - Form 10-Q

status.

During the 2nd quarter of 2001, the Company sold one community shopping center and one single tenant facility. The assets sold were K-Mart Rocklin, a 86,000 single tenant facility located in Rocklin, California and Marshalls' Plaza, a 79,000 square foot shopping center located in Modesto, California. After repayment of debt of \$1.4 million, net proceeds of \$8.3 million were used to reduce the outstanding balance on the Company's Credit Facility.

During the first quarter of 2001, the Company sold three community shopping centers and one single tenant facility for a combined sales price of \$38.4 million. The assets sold included Westgate North Shopping Center, a 104,000 square foot shopping center located in Tacoma, Washington, Center of El Centro, a 179,000 square foot shopping center located in El Centro, California, Madera Marketplace a 169,000 square foot shopping center located in Madera, California, and K-Mart Madera, a 86,000 square foot single tenant facility, located in Madera, California. The total net proceeds from the sales were \$17 million, after repayment of debt of approximately \$16.9 million that reduced the outstanding balance on the Company's Credit Facility.

Subsequent to June 30, 2001, the Company refinanced an existing mortgage on North Mountain Village, located in Phoenix, Arizona. The \$7.1 million mortgage bears interest at 7.68% and matures in 2011. The Company has no other debt maturities in 2001.

Debt maturities of \$193.4 million in 2002, as well as significant amounts due from 2003 to 2015, will require refinancing. Loans maturing in 2002 include the amount outstanding on the Company's Secured Credit Facility of \$151 million, which is due on March 31, 2002. The Secured Credit Facility has a 1-year extension available subject to certain covenant compliance. The Company expects to extend the maturity of the Secured Credit Facility. The Company believes, based on the collateral available within the Properties, that it will be able to effect such refinancings.

### Cash Flows

Net cash provided by operating activity increased by \$2.3 million from \$5.4 million for the six months ended June 30, 2000 to \$7.6 million for the same period of 2001. The increase resulted primarily from lower working capital requirements in the period ended June 30, 2001 compared to the same period of June 30, 2000 partially offset by the sale of assets previously discussed.

Net cash from investment activities was \$40.6 million for the six months ended June 30, 2001 as compared to \$28.3 million for the six months ended June 30, 2000. The increase was the result of proceeds received from the sale of four community shopping centers and two single tenant facilities in 2001 compared to the sale of one single tenant facility and a freestanding theatre in 2000. Financing activities used cash of \$48.4 million for the six months ended June 30, 2001 as compared to \$32.9 million for the six months ended June 30, 2000. The decrease was primarily the result of the repayment of the 7 % Convertible Subordinated Debentures in January 2001 partially offset by lower pay-down of the Company's Secured Credit Facility in 2001 compared to 2000.

### Inflation

Center Trust's long term leases contain provisions designed to mitigate the adverse impact of inflation on its results from operations. Such provisions include clauses enabling Center Trust to receive percentage rents based upon tenants' gross sales, which generally increase as prices rise, and/or, in certain cases, escalation clauses are often related to increases in the CPI or similar inflation indices. In addition, many of Center Trust's leases are for terms of less than ten years, which permits Center Trust to seek to increase

## Edgar Filing: CENTER TRUST INC - Form 10-Q

rents upon re-rental at market rates if rents are below then existing market rates. Many of Center Trust's leases require the tenants to

10

pay a pro rata share of operating expenses, including common area maintenance, real estate taxes, insurance and utilities, thereby reducing Center Trust's exposure to increases in costs and operating expenses from inflation.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk primarily due to fluctuations in interest rates. Specifically, the risk resulting from increasing LIBOR-based interest rates as interest on the Company's Credit Facility of \$158.1 million as well as mortgage notes of \$108.5 million are tied to various LIBOR interest rates. The Credit Facility matures March 31, 2002. The Company is also subject to market risk resulting from fluctuations in the general level of U.S. interest rates as \$112.0 million of the Company's debt is based on a weighted average fixed rate of 8.8%. As a result, the Company will be obligated to pay contractually agreed upon rates on interest on its fixed rate debt, unless management refinances its existing fixed rate debt and potentially incurs substantial prepayment penalties. The \$36 million of tax-exempt certificates of participation are tied to a general index of AAWA-rated tax-free municipal bonds.

The following table provides information about the Company's interest rate sensitive financial instruments, including, amounts due at maturity, principal amortization, weighted average interest rates and fair market values as of June 30, 2001 (dollars in thousands):

As of June 30, 2001	2001	2002	2003	2004	2005	Thereafter	Total	Fair Market Value
Interest Rate Sensitive Liabilities:								
Credit Facility.....		\$151,365					\$151,365	\$151,365
Interest Rate.....		LIBOR					LIBOR	
		+ 2.50%					+ 2.50%	
Variable Rate Debt.....		\$ 33,253	\$75,185				\$108,438	\$108,438
Interest Rate.....		LIBOR	LIBOR				LIBOR	
		+2.50%	+ 2.366%				+2.407%	
Fixed Rate Debt.....	\$8,105	\$ 9,020	\$15,052			\$77,620	\$109,797	\$112,667
Weighted Average Interest Rate.....	8.25%	10.45%	10.375%			8.343%	8.787%	
Tax Exempt Certificates.						\$36,000	\$ 36,000	\$ 36,000
Weighted Average Interest Rate.....						5.28%	5.28%	

11

### PART II--OTHER INFORMATION

#### Item 1: Legal Proceedings

None

Edgar Filing: CENTER TRUST INC - Form 10-Q

Item 2: Changes in Securities

None

Item 3: Defaults Upon Senior Securities

None

Item 4: Submission of Matters to a Vote of Security Holders

None

Item 5: Other Information

None

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

On May 2, 2001, the Company filed a report on Form 8-K to make available additional financial and operational information concerning the Company and properties owned as of March 31, 2001.

12

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.

CENTER TRUST RETAIL PROPERTIES, INC.

/s/ EDWARD A. STOKX

By: \_\_\_\_\_

Edward A. Stokx  
Senior Vice President of Finance  
(Principal Financial Officer)

/s/ SIDNEY M. SHIBATA

By: \_\_\_\_\_

Sidney M. Shibata  
Controller

Dated: August 14, 2001