

CENTER TRUST INC  
Form 10-Q  
August 14, 2002

**Table of Contents**

---

---

**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, 2002**

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, 2002, 27,875,205 shares of Common Stock, Par Value \$.01 Per Share, were outstanding.

---

---

---

**TABLE OF CONTENTS**

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

**PART II -- OTHER INFORMATION**

Item 1: Legal Proceedings

Item 2: Changes in Securities

Item 3: Defaults Upon Senior Securities

Item 4: Submission of Matters to a Vote of Security

Item 5: Other Information

Item 6: Exhibits and Reports on Form 8-K

**EXHIBIT 10.1**

**EXHIBIT 10.2**

**EXHIBIT 10.3**

---

**Table of Contents**

**CENTER TRUST, INC.**

**FORM 10-Q**

**INDEX**

	<u>Page</u>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Financial Statements (unaudited)	
Consolidated Balance Sheets as of June 30, 2002 and December 31, 2001	2
Consolidated Statements of Operations for the three and six months ended June 30, 2002 and 2001	3
Consolidated Statements of Cash Flows for the six months ended June 30, 2002 and 2001	4
Notes to Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7
<b>PART II OTHER INFORMATION</b>	12
SIGNATURES	14

**Table of Contents****CENTER TRUST, INC.****CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	<b>June 30, 2002</b>	<b>December 31, 2001</b>
	<b>(In thousands, except share data)</b>	
<b>ASSETS</b>		
Rental properties	\$ 712,193	\$ 708,577
Accumulated depreciation and amortization	(153,897)	(147,273)
	<hr/>	<hr/>
Rental properties, net	558,296	561,304
Assets held for sale	22,231	22,329
Cash and cash equivalents	5,008	6,816
Tenant receivables, net	7,262	7,668
Other receivables	5,474	5,161
Restricted cash and securities	13,948	13,282
Deferred charges, net	16,464	16,636
Other assets	4,571	3,877
	<hr/>	<hr/>
TOTAL	\$ 633,254	\$ 637,073
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES:</b>		
Secured debt	\$ 398,086	\$ 402,377
Accrued dividends and distributions	1,742	1,160
Accrued interest	1,824	2,057
Accounts payable and other accrued expenses	9,921	11,309
Accrued construction costs	1,122	1,059
Tenant security and other deposits	1,429	2,233
	<hr/>	<hr/>
Total liabilities	414,124	420,195
	<hr/>	<hr/>
<b>MINORITY INTERESTS:</b>		
Operating Partnership (1,323,504 and 1,338,644 units issued as of June 30, 2002 and December 31, 2001, respectively)	9,838	9,696
Other minority interests	1,373	1,529
	<hr/>	<hr/>
Total minority interests	11,211	11,225
	<hr/>	<hr/>
<b>COMMITMENTS AND CONTINGENCIES:</b>		
<b>STOCKHOLDERS EQUITY:</b>		
Common stock (\$.01 par value, 100,000,000 shares authorized; 27,875,205 and 27,656,405 shares issued and outstanding as of June 30, 2002 and December 31, 2001, respectively)	279	276
Additional paid-in capital	367,824	365,474
Accumulated distributions and deficit	(160,184)	(160,097)
	<hr/>	<hr/>
Total stockholders equity	207,919	205,653
	<hr/>	<hr/>
TOTAL	\$ 633,254	\$ 637,073
	<hr/>	<hr/>

Edgar Filing: CENTER TRUST INC - Form 10-Q

See Notes to Consolidated Financial Statements.

**Table of Contents****CENTER TRUST, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
(In thousands, except per share amounts)				
<b>REVENUES:</b>				
Rental revenues	\$ 17,257	\$ 17,272	\$ 34,324	\$ 35,011
Expense reimbursements	5,766	5,964	11,499	11,906
Percentage rents	199	173	600	694
Other income	2,931	1,108	4,138	2,534
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues	26,153	24,517	50,561	50,145
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>EXPENSES:</b>				
Interest	6,694	8,443	13,661	18,131
<b>Property operating costs:</b>				
Common area	4,569	4,513	8,897	8,879
Property taxes	2,471	2,390	4,942	4,910
Leasehold rentals	271	269	547	534
Marketing	281	411	552	594
Other operating	1,309	1,149	2,622	2,330
Depreciation and amortization	5,311	5,175	10,560	10,414
Transactional costs/reorganization costs	1,688	2,613	2,031	2,613
General and administrative	1,101	1,646	2,231	3,011
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenses	23,695	26,609	46,043	51,416
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>INCOME (LOSS) FROM OPERATIONS BEFORE OTHER ITEMS</b>	2,458	(2,092)	4,518	(1,271)
<b>LOSS ON SALE OF RENTAL PROPERTIES</b>		(3,279)		(2,379)
<b>MINORITY INTERESTS:</b>				
Operating Partnership	71	333	(21)	281
Other minority interests	(60)	(140)	(126)	(169)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM</b>	2,469	(5,178)	4,371	(3,538)
<b>EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT</b>		(566)		(1,385)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET INCOME (LOSS)</b>	\$ 2,469	\$ (5,744)	\$ 4,371	\$ (4,923)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>BASIC AND DILUTED INCOME PER SHARE:</b>				
Income (Loss) before extraordinary item	\$ 0.09	\$ (0.19)	\$ 0.16	\$ (0.13)
Extraordinary loss on early extinguishment of debt		(0.02)		(0.05)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net Income (Loss)	\$ 0.09	\$ (0.21)	\$ 0.16	\$ (0.18)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Weighted Average Basic and Diluted Shares Outstanding	27,875	27,372	27,771	27,232
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Edgar Filing: CENTER TRUST INC - Form 10-Q

See Notes to Consolidated Financial Statements.



Table of Contents

## CENTER TRUST, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Six Months Ended June 30,	
	2002	2001
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 4,371	\$ (4,923)
Adjustment to reconcile net income (loss) to net cash Provided by operating activities:		
Depreciation and amortization	10,560	10,414
Amortization of deferred financing costs	1,815	2,047
Net loss on sale of rental properties		2,379
Extraordinary loss early extinguishment of debt		1,385
Minority interests in operations	147	(112)
Net changes in operating assets and liabilities	(3,390)	(3,550)
	13,503	7,640
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Construction and development costs	(5,762)	(4,458)
Net proceeds from sale of rental property		45,074
	(5,762)	40,616
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on notes payable	(4,291)	(139,023)
Borrowings on secured line of credit		133,369
Repayment of secured line of credit		(35,347)
Costs of obtaining financing	(1,694)	
Increase in restricted cash and securities	(666)	(125)
Dividends to shareholders	(2,764)	(6,678)
Distributions to minority interests	(134)	(567)
	(9,549)	(48,371)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,808)</b>	<b>(115)</b>
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD</b>	<b>6,816</b>	<b>6,164</b>
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$ 5,008</b>	<b>\$ 6,049</b>

See Notes to Consolidated Financial Statements.

**Table of Contents**

**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, 2002, the Company owned 35 retail shopping centers (the Properties) comprising 7.9 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 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 normal and recurring 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, 2001.

**2. Quarterly Activity**

During the quarter, the Company executed an extension of the maturity date on a mortgage secured by Date Palm Center located in Cathedral City, California to September 5, 2002. The short-term extension has been granted on its current terms. The Company is in the process of completing documentation that will modify the existing agreement at a fixed interest rate of 6.3% and will extend the maturity date to November 1, 2006.

The Company collected \$1.8 million for settlement of a note receivable from the sale of an asset in 1999. Due to the uncertainty of collection, the note had been fully reserved.

A \$1.7 million charge was recorded by the Company for the restructuring of the employment contract for Edward Fox, the Company's Chairman and Chief Executive Officer. The changes to Mr. Fox's contract are a result of the Board of Directors' desire to realign the executive management team in order to reduce overhead costs in light of the reduction in the Company's asset base. The \$1.7 million charge, based on the provisions of Mr. Fox's 1999 employment contract, is comprised of \$1.1 million from the accelerated vesting of previously issued restricted stock and \$0.6 million in salary and bonus payments. The shares of restricted stock would otherwise have vested on a performance basis and were included in the number of shares outstanding as of the date they were originally issued.

**3. 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 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, 2002 were 29,199,000 and 29,097,000, respectively. The weighted average number of common shares for the same periods ended June 30, 2001 were 28,962,000 and 28,850,000, 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.

**Table of Contents**

**CENTER TRUST, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On July 22, 2002, the Company paid a \$0.06 dividend per share to shareholders of record as of June 28, 2002. Year-to-date the Company has paid dividends of \$0.12 per share or \$3.4 million.

**4. Assets Held For Sale**

The Company currently has two assets under contract for sale. The contracted sales price for the properties exceed the book value of the assets held. While the sales of these assets are expected to close in the third quarter of 2002, there is no certainty that the transactions will close.

**5. New Accounting Pronouncements**

On January 1, 2002, the Company adopted the provisions of SFAS 142 Goodwill and Other Intangible Assets ( SFAS 142 ) and SFAS 144 Accounting for the Impairment of Disposal of Long-Lived Assets ( SFAS 144 ). SFAS 142 discontinues the practice of amortizing goodwill and other intangible assets and requires a periodic review process for impairment. SFAS 144 addresses financial accounting and reporting for the disposal of long-lived assets and supercedes FAS 121 Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The adoption of these statements did not have a material effect on the Company's results of operations or financial condition.

**6. Subsequent Events**

Effective July 20, 2002, the Company entered into two 5-year LIBOR swap contracts of \$50 million each. The swap contracts fix the interest rate on \$100 million of debt at a rate of 4.28%. The Company's effective borrowing rate is equal to the swap rate plus the applicable bank spread, which on the Company's secured line of credit is 2.5% for an effective borrowing rate of 6.78%. The interest rate swap is in effect for the period July 20, 2002 to July 20, 2007. This transaction will be subject to Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities and Statement of Financial Accounting Standards No. 138 Accounting for Certain Derivative Instruments and Hedging Activities.

## **Table of Contents**

### **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 similar 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;

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, 2002 to the three months ended June 30, 2001.*

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

Rental revenues were \$17.3 million for the three months ended June 30, 2002 and 2001. Revenues decreased \$0.4 million, a result of the sale of four open-air centers and two single tenant facilities in 2001. This was offset by \$0.4 million increase in revenues at the remaining properties in the portfolio.

Other income increased \$1.8 million to \$2.9 million for the three months ended June 30, 2002 from \$1.1 million for the three months ended June 30, 2001. The increase is due to a \$1.8 million settlement of a note receivable from the sale of an asset in 1999. Due to the uncertainty of collection, the note had been fully reserved.

**Table of Contents**

Property operating costs increased by \$0.2 million to \$8.9 million for the three months ended June 30, 2002 from \$8.7 million for the three months ended June 30, 2001. The increase is primarily due to the higher cost of insurance.

Interest expense decreased to \$6.7 million for the three months ended June 30, 2002 from \$8.4 million for the three months ended June 30, 2001. Of the decrease, \$1.5 million was primarily due to lower effective interest rates and \$0.2 million was a result of lower average debt outstanding in the second quarter of 2002 compared to the same period in 2001. The lower average debt outstanding was due to the reduction of the outstanding balance on the Company's Credit Facility through the use of the proceeds from the sale of assets during the first half of 2001.

General and administrative costs decreased by \$0.5 million from \$1.6 million for the three months ended June 30, 2001 to \$1.1 million for the three months ended June 30, 2002. The decrease is due to cost savings related to reductions in overhead costs intended to bring the Company's costs in line with the Company's reduced asset base.

During the second quarter of 2002, the Company recorded a charge of \$1.7 million related to the restructuring of the employment contract for Edward Fox, the Company's Chairman and Chief Executive Officer. The changes to Mr. Fox's contract are a result of the Board of Directors' desire to realign the executive management team in order to reduce overhead costs in light of the reduction in the Company's asset base. The \$1.7 million charge, based on the provisions of Mr. Fox's 1999 employment contract, is comprised of \$1.1 million from the accelerated vesting of previously issued restricted stock and \$0.6 million in salary and bonus payments. The shares of restricted stock would otherwise have vested on a performance basis and were included in the number of shares outstanding as of the date they were originally issued.

During the second quarter of 2001, the Company recorded a non-recurring Reorganization expense of \$2.6 million. The expense consisted of employee severance and other related costs. As of the second quarter of 2002, substantially all costs related to the reorganization have been incurred.

The Company reported net income of \$2.5 million for the three months ended June 30, 2002 compared to a net loss of \$5.7 million for the same period ended June 30, 2001. The increase in net income is primarily due to the decrease in interest expense and the 2001 loss on sale of assets.

***Comparison of the six months ended June 30, 2002 to the six months ended June 30, 2001.***

Rental revenues decreased by \$0.7 million to \$34.3 million for the six months ended June 30, 2002 from \$35.0 million for the six months ended June 30, 2001. The decrease of 1.2 million is due to the sale of four open-air and two single tenant facilities in 2001. This was partially offset by an increase of \$0.5 million in revenues at the remaining properties in the portfolio.

Property operating costs increased by \$0.4 million to \$17.6 million for the six months ended June 30, 2002 from \$17.2 million for the six months ended June 30, 2001. The increase is primarily due to the higher cost of insurance partially offset by a \$0.3 million decrease in expenses due to sold properties.

Interest expense decreased to \$13.7 million for the six months ended June 30, 2002 from \$18.1 million for the six months ended June 30, 2001. Of the decrease, \$3.6 million resulted from lower effective interest rates and \$0.8 million was due to lower average debt outstanding in the period ended June 30, 2002, compared to the same period in 2001. The lower average debt outstanding was due to the repayment of the \$128.5 million 7 1/2% Convertible Subordinated Debentures on January 15, 2001 and the reduction of the outstanding balance on the Company's Credit Facility through the use of the proceeds from the sale of assets during the first half of 2001.

General and administrative costs decreased by \$0.8 million to \$2.2 million for the six month period ended June 30, 2002 from \$3.0 million for the six months ended June 30, 2001. The decrease is the result of the full realization of cost savings for the six month period ending June 30, 2002 related to the Company's reorganization at the end of the second quarter of 2001.

**Table of Contents**

The Company reported net income of \$4.4 million for the six months ended June 30, 2002 compared to a net loss of \$4.9 million for the six months ended June 30, 2001. The increase in net income is primarily due to the decrease in interest expense and the 2001 loss on sale of assets.

**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,	
	2002	2001
Retail Properties (35 at June 30, 2002 and 2001):		
Regional Malls	\$ 8,564	\$ 8,240
Open Air Centers	23,649	23,368
Single Tenants	553	810
Other income	235	480
	<u>          </u>	<u>          </u>
Net Operating Income	\$33,001	\$32,898
	<u>          </u>	<u>          </u>

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

	June 30, 2002	December 31, 2001
Retail Properties (35 in 2002 and 2001):		
Open Air Centers	89.6%	91.8%
Regional Malls	92.7	94.4
Single Tenants	100.0	100.0
Aggregate Portfolio	90.6	92.6

**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.

**Table of Contents**

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,	
	2002	2001	2002	2001
<b>FUNDS FROM OPERATIONS</b>				
Net income (loss)	\$ 2,469	\$ (5,744)	\$ 4,371	\$ (4,923)
Adjustments to reconcile net income to funds from operations:				
Depreciation and Amortization:				
Buildings and improvements	3,115	3,212	6,276	6,444
Tenant improvements and allowances	1,178	1,138	2,368	2,234
Leasing costs	745	605	1,473	1,313
Minority Interests	(120)	(377)	(95)	(496)
Loss on Sale of Rental Assets		3,279		2,379
Extraordinary loss - early extinguishment of debt		566		1,385
Reorganization Costs		2,613		2,613
Other		377		538
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Funds from operations, basis and diluted	\$ 7,387	\$ 5,669	\$ 14,393	\$ 11,487
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Funds from operations, on a basic basis, increased to \$7.4 million for the three months ended June 30, 2002, as compared to \$5.7 million for the same period in 2001. Funds from operations increased to \$14.4 million for the six months ended June 30, 2002, as compared to \$11.5 million for the same period in 2001. The three and six month increases 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.

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 net income as an indicator of Center Trust's operating performance or to cash flows as a measure of liquidity.

**Liquidity Sources and Requirements**

During the first quarter, the Company executed an amendment of its existing line of credit with General Electric Capital Real Estate and Fleet Bank. The amendment reduced the total commitment to \$150 million from \$170 million and has a maturity date of April 1, 2004, with a one-year extension option through April 1, 2005. To facilitate this amendment, the Company incurred a one-percent commitment fee. The spread is 250 basis points over LIBOR. As of June 30, 2002, the Company had an outstanding balance of \$114.5 million and \$23 million of availability under the line of credit.

Effective July 20, 2002, the Company entered into two 5-year, \$50 million LIBOR swap contracts at a rate of 4.28%. The Company's effective borrowing rate is equal to the swap rate plus the applicable bank spread, which on the Company's secured line of credit is 2.5% for an effective borrowing rate of 6.78%. The interest rate swaps are in effect for the period July 20, 2002 to July 20, 2007. This transaction will be subject to Statement of Financial Accounting Standards No. 133 - Accounting for Derivative Instruments and Hedging Activities and Statement of Financial Accounting Standards No. 138 - Accounting for Certain Derivative Instruments and Hedging Activities. The interest rate swap eliminates the interest rate volatility on \$100 million of the Company's variable rate debt and is consistent with the Company's objective to maintain flexibility in the balance sheet while capitalizing on historically low interest rates.

During 2002, the Company has debt maturities of \$59.0 million. Of this balance, three mortgages totaling \$50.2 million each have three one-year extensions available to the company. The remaining balance of \$8.8 million represents one non-recourse mortgage secured by Date Palm Center located in Cathedral City,





## **Table of Contents**

California. The maturity date of the mortgage has been extended through September 5, 2002. The Company is in the process of completing documentation that will modify the existing agreement at an interest rate of 6.3% and with an extended maturity date of November 1, 2007. We anticipate that we will be able to successfully execute the modification to this loan prior to the end of the extension date.

### **Cash Flows**

Net cash provided by operating activity increased by \$5.9 million to \$13.5 million for the six months ended June 30, 2002 from \$7.6 million for the same period of 2001. The increase primarily resulted from lower interest costs for the period.

Net cash used by investment activities was \$5.8 million for the six months ended June 30, 2002, compared to cash provided by investment activities of \$40.6 million for the six months ended June 30, 2001. The decrease was the result of proceeds received from the sale of four open-air centers and two single tenant facilities in 2001 compared to no sales of assets in 2002. Financing activities used cash of \$9.5 million for the six months ended June 30, 2002 as compared to \$48.4 million for the six months ended June 30, 2001. During the period ended 2001, the cash used by financing activities is the result of repayments on the line of credit from proceeds received from the sale of assets in 2001 compared to no sales of assets in 2002.

### **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 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 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 \$114.5 million as well as mortgage notes of \$72.2 million are tied to various LIBOR interest rates. The Credit Facility matures March 31, 2004. The Company is also subject to market risk resulting from fluctuations in the general level of U.S. interest rates as \$175.4 million of the Company's debt is based on a weighted average fixed rate of 8.0%. 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.

Edgar Filing: CENTER TRUST INC - Form 10-Q

**Table of Contents**

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, 2002 and 2001 (dollars in thousands):

As of June 30, 2002	2002	2003	2004	2005	2006	Thereafter	Total	Fair Market Value
Interest Rate Sensitive Liabilities:								
Credit Facility			\$114,548				\$114,548	\$114,548
Interest Rate			LIBOR+ 2.50%				LIBOR+ 2.50%	
Variable Rate Debt								
Debt	\$50,185	\$22,000					\$72,185	\$72,185
Interest Rate	LIBOR+ 2.50%	LIBOR+ 2.366%					LIBOR+ 2.407%	
Fixed Rate Debt	\$8,842	\$14,670			\$12,742	\$139,099	\$175,353	\$201,642
Weighted Average Interest Rate								
	10.45%	10.375%			10.627%	7.393%	8.032%	
Tax Exempt Certificates								
						\$36,000	\$36,000	\$36,000
Weighted Average Interest Rate								
						3.067%	3.067%	

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+ 2.50%					LIBOR+ 2.50%	
Variable Rate Debt								
Debt		\$33,253	\$75,185				\$108,438	\$108,438
Interest Rate		LIBOR+ 2.50%	LIBOR+ 2.366%				LIBOR+ 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%	

**PART II OTHER INFORMATION**

**Item 1: Legal Proceedings**

None

**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

**Table of Contents**

**Item 5: *Other Information***

None

**Item 6: *Exhibits and Reports on Form 8-K***

*(a) Exhibits*

10.1	Employment Agreement of Edward D. Fox
10.2	Employment Agreement of Stuart J. S. Gulland
10.3	Employment Agreement of Edward A. Stokx

*(b) Reports on Form 8-K*

On May 8, 2002, 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, 2002.