

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

KRAMONT REALTY TRUST
Form 10-Q
November 13, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
--- EXCHANGE ACT OF 1934

For the quarter ended September 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: 1-15923

KRAMONT REALTY TRUST

(Exact name of Registrant as specified in its charter)

Maryland

25-6703702

(State of Incorporation)

(I.R.S. Employer Identification No.)

580 West Germantown Pike, Plymouth Meeting, PA

19462

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (610) 825-7100

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 X No
--- -----

Number of Common Shares of Beneficial Interest, par value \$.01 per share, as of November 13, 2001: 18,857,295

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KRAMONT REALTY TRUST AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (dollars in thousands)

| ASSETS | September 30, 2001 ---- |
|---|-------------------------------|
| Real estate - income producing, net of accumulated depreciation | \$ 675,052 |
| Mortgage notes receivable | 35,952 |
| Investments in unconsolidated affiliates | 3,139 |
| Cash and cash equivalents (includes \$1,706 and \$1,574 restricted) | 8,773 |
| Other assets | 32,159 |
| | ----- |
| Total assets | \$ 755,075 ===== |
| LIABILITIES AND BENEFICIARIES' EQUITY | |
| LIABILITIES: | |
| Mortgages and notes payable | \$ 499,490 |
| Accounts payable and other liabilities | 12,845 |
| Distributions payable | 8,390 |
| | ----- |
| Total liabilities | 520,725 ----- |
| Minority interests in Operating Partnerships | 15,569 ----- |
| BENEFICIARIES' EQUITY: | |
| Preferred shares of beneficial interest | 30 |
| Common shares of beneficial interest, \$0.01 par value; authorized 96,683,845 shares; outstanding, 18,857,295 and 18,752,912, respectively | 188 |
| Additional paid-in capital | 177,383 |
| Retained earnings | 45,751 |
| Accumulated other comprehensive income (loss) | (1,385) |
| Treasury stock, Redeemable preferred shares of beneficial interest Series D, 146,800 shares at cost | (2,349) |
| | ----- |
| | 219,618 |
| Unearned compensation on restricted shares of beneficial interest | (837) ----- |
| Total beneficiaries' equity | 218,781 ----- |
| Total liabilities and beneficiaries' equity | \$ 755,075 |

See accompanying notes to consolidated financial statements.

2

KRAMONT REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share data)

| | Three Months Ended September 30, | | |
|---|-------------------------------------|-----------|-------|
| | 2001 | 2000 | |
| | ---- | ---- | |
| Revenues: | | | |
| Rent | \$ 25,671 | \$ 25,149 | \$ |
| Interest, principally from mortgage notes | 1,291 | 2,109 | |
| Other | -- | 795 | |
| | ----- | ----- | |
| | 26,962 | 28,053 | |
| | ----- | ----- | |
| Expenses: | | | |
| Interest | 9,582 | 10,988 | |
| Operating | 6,906 | 5,875 | |
| Depreciation and amortization | 3,984 | 3,539 | |
| General and administrative | 2,101 | 1,899 | |
| | ----- | ----- | |
| | 22,573 | 22,301 | |
| | ----- | ----- | |
| Equity in income of unconsolidated affiliates | 4,389 | 5,752 | |
| Gain (Loss) on sale of assets | 227 | 167 | |
| Minority interests in income of | (119) | -- | |
| Operating Partnerships | (172) | (276) | |
| | ----- | ----- | |
| Net Income | 4,325 | 5,643 | |
| Preferred share distribution | (1,884) | (1,952) | |
| | ----- | ----- | |
| Net income to common shareholders | \$ 2,441 | \$ 3,691 | \$ |
| | ===== | ===== | ===== |
| Per common share: | | | |
| Net income, basic and diluted | \$.13 | \$.20 | \$ |
| | ===== | ===== | ===== |
| Dividends declared | \$.33 | \$.33 | \$ |
| | ===== | ===== | ===== |

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

Average common shares outstanding:

| | | |
|---------|------------|------------|
| Basic | 18,830,748 | 18,752,912 |
| | ===== | ===== |
| Diluted | 18,844,142 | 18,753,077 |
| | ===== | ===== |

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
(dollars in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|-------------------------------------|---------|------------------------------------|---------|
| | 2001 | 2000 | 2001 | 2000 |
| | ---- | ---- | ---- | ---- |
| Net income | \$ 4,325 | \$5,643 | \$ 17,945 | \$9,882 |
| Gain (Loss) on interest rate hedges | (1,101) | -- | (1,658) | -- |
| Comprehensive income | \$ 3,224 | \$5,643 | \$ 16,287 | \$9,882 |
| | ===== | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

3

KRAMONT REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Nine Months Ended September 30, |
|--|------------------------------------|
| | 2001 |
| | ---- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net cash provided by operating activities | \$ 20,931 |
| | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Collections on mortgage notes receivable | 1,287 |
| Pay down of accrued acquisition costs/Cash used for Merger Costs | (417) |
| Proceeds from sale of real estate | 10,230 |
| Cash acquired in acquisition | -- |
| Capital improvements | (9,709) |
| Change in restricted cash | (133) |
| Other | (151) |
| | ----- |

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

| | | |
|---|-----------|------|
| Net cash (used in) provided by investing activities | 1,109 | |
| | ----- | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from borrowings | 10,710 | |
| Repayments of borrowings | (11,513) | |
| Cash distributions paid on common shares | (18,307) | |
| Cash distributions paid on preferred shares | (5,638) | |
| Proceeds from exercise of stock options | 692 | |
| Distributions to minority interests | (1,283) | |
| | ----- | |
| Net cash used in by financing activities | (25,341) | |
| | ----- | |
| Net (decrease)/increase in unrestricted cash and cash equivalents | (3,301) | |
| Unrestricted cash and cash equivalents at the beginning of the period | 10,367 | |
| | ----- | |
| Unrestricted cash and cash equivalents at the end of the period | \$ 7,066 | \$ |
| | ===== | == |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ 26,915 | \$ |
| | ===== | == |
| Acquisitions: | | |
| Fair Value of assets acquired | \$ -- | \$ (|
| Liabilities assumed or incurred | -- | |
| Preferred shares of beneficial interest issued | -- | |
| Common shares if beneficial interest issued | -- | |
| | ----- | |
| Net of cash acquired | \$ -- | \$ |
| | ===== | == |
| Accrued acquisition costs | \$ 1,000 | \$ |
| | ===== | == |

See accompanying notes to consolidated financial statements.

4

KRAMONT REALTY TRUST AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND BUSINESS

Kramont Realty Trust ("Kramont") is a self-administered, self - managed real estate investment trust ("REIT") which is engaged in the ownership, acquisition, redevelopment, management and leasing of community and neighborhood shopping centers. Kramont does not directly own any assets other than its interest in Kramont Operating Partnership, L.P. ("Kramont OP") and conducts its business through Kramont OP and its affiliated entities, including Montgomery Operating Partnership, L.P. ("Montgomery OP", together with Kramont OP and their

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

wholly-owned subsidiaries, hereinafter collectively referred to as the "OP's", which together with Kramont are hereinafter referred to as the "Company"). The OP's, directly and indirectly, own all of the Company's assets, including its interest in shopping centers. Accordingly, the Company conducts its operations through an Umbrella Partnership REIT ("UPREIT") structure. As of September 30, 2001, the Company owned 93.53% of the partnership interests in Kramont OP and is its sole general partner. As of September 30, 2001, the Company indirectly owned 99.87% of the partnership interests of Montgomery OP and owned 100% of its sole general partner. As of September 30, 2001, the OP's owned, operated and managed 84 shopping centers and two office buildings, located in 16 states and aggregating approximately 11.6 million square feet.

Kramont acquired its assets through the merger of Kranzco Realty Trust ("Kranzco") and CV Reit, Inc. ("CV Reit") into Kramont in a merger effective as of June 16, 2000 (the "Merger"). The Agreement and Plan of Reorganization and Merger dated December 10, 2000, was adopted and approved by the shareholders of both companies on June 6, 2000. Terms of the Merger called for holders of common shares of both companies to each receive one common share of beneficial interest of Kramont for each outstanding share of CV Reit and Kranzco on a tax-free basis and for holders of Kranzco preferred shares to receive in exchange for such Kranzco preferred shares, Kramont preferred shares with the same rights.

In the opinion of management, all adjustments considered necessary for a fair presentation have been included. For further information please refer to the audited financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Certain 2000 income amounts have been reclassified to conform to the 2001 financial statement presentation. These reclassifications had no impact on operating results previously reported.

(2) CHANGES TO SIGNIFICANT POLICIES AND PROCEDURES

(a) Revenue Recognition

The Company recognizes percentage rent in the periods they became accruable.

(b) Derivative Instruments

Effective January 1, 2001, Kramont adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. FAS 133 requires that all derivative instruments, such as interest rate swap and cap contracts, be recognized in the financial statements and measured at their fair market value. Changes in the fair market value of derivative instruments are recognized each period in current operations or stockholders equity (as a component of accumulated other comprehensive loss), depending on whether a derivative instrument qualifies as a hedge transaction. Amounts recorded on the consolidated statements of other comprehensive income are reclassified

to the consolidated statement of operations upon the termination of the hedge contract or related long term debt.

In the normal course of business, Kramont is exposed to changes in interest rates. The objective in managing its exposure to interest rates is to decrease the volatility that changes in interest rates might have on operations and cash flows. To achieve this objective, Kramont uses interest rate swaps and caps to hedge a portion of total long-term debt that is subject to variable interest rates and designates these instruments as cash flow hedges. Under these swaps,

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

Kramont agrees to pay fixed rates of interest. These contracts are considered to be a hedge against changes in the amount of future cash flows associated with the interest payments on variable-rate debt obligations. Accordingly, the interest rate swaps are reflected at fair value in the Consolidated Balance Sheet and the related gains or losses on these contracts are recorded as a component of accumulated other comprehensive loss. Kramont does not enter into such contracts for speculative purposes and currently these are the only derivative instruments held by Kramont as of September 30, 2001. The fair value of interest rate swap contracts are determined based on the fair market value as determined by a third party.

The adoption of FAS 133 at January 1, 2001, resulted in recording \$273,000 in accumulated other income for the cumulative effect of the accounting change. As of January 1, 2001, Kramont had interest rate swap contracts to pay fixed rates of interest (ranging from 6.088% to 6.78%) and receive variable rates of interest based on LIBOR on an aggregate of \$32.5 million notional amount of indebtedness with maturity dates ranging from March 2004 through May 2004. These hedges are highly effective and there is no ineffective portion. The aggregate fair market value of all interest rate swap and cap contracts was \$273,000 on January 1, 2001. The aggregate fair market value of these interest rate swap and cap contracts was (\$1,385,000) on September 30, 2001 and is included in accounts payable and other liabilities on the Consolidated Balance Sheet. No amounts are expected to be reclassified to the statement of income during 2001 or 2002.

(c) Segment Disclosure

The Company's income producing properties and other assets represent one segment as they have similar economic and environmental conditions, business processes, types of customers (i.e., tenants), and services provided, and because resource allocation and other operating decisions are based on an evaluation of the entire portfolio. In addition, due to the repayment of the Hilcoast Note in December 2000, the Company believes the remaining Mortgage Note Receivables are not material and no longer represent a separate operating segment.

(3) ACQUISITIONS

The merger of CV Reit and Kranzco was accounted for as a purchase by CV Reit of Kranzco. Accordingly, the consolidated statement of income for 2000 includes the operating results of the net assets acquired from the effective date of the Merger.

The following unaudited proforma data summarizes the consolidated results of operations for the nine month period as if the acquisition had occurred on January 1, 2000. The proforma results do not purport to be indicative of the results of operations which would have actually been reported had the acquisitions been consummated on this date, or which may be reported in the future (in thousands, except per share data):

| | September 30, 2000 ----- |
|--|-----------------------------|
| Revenues | \$ 85,255 |
| Net income before preferred distribution | \$ 14,177 |
| Net income to common shareholders | \$ 8,488 |
| Net income per common share, basic and diluted | \$.45 |

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

4) REAL ESTATE

(a) Real estate is located in 16 states and consists of (in thousands):

| | September 30, 2001 ----- | December 31, 2000 ----- |
|-------------------------------|-----------------------------|----------------------------|
| Land | \$ 118,697 | \$ 120,386 |
| Shopping centers | 579,821 | 577,059 |
| Office buildings | 5,014 | 5,002 |
| | ----- | ----- |
| Total | 703,532 | 702,447 |
| Less accumulated depreciation | | |
| | (28,481) | (17,166) |
| | ----- | ----- |
| Net book value of real estate | \$ 675,052 ===== | \$ 685,281 ===== |

(b) Real estate with a net book value of \$655.3 million, at September 30, 2001, is pledged as collateral for borrowings (Note 6).

(5) MORTGAGE NOTES RECEIVABLE

At September 30, 2001, the Company's mortgage notes receivable consisted of \$36.0 million collateralized by first mortgages on the recreation facilities at three Century Village adult condominium communities in southeast Florida (collectively, the "Recreation Notes"). The Recreation Notes provide for self-amortizing equal monthly principal and interest payments due through 2012 per annum, bear interest ranging from 8.84% to 13.5% and contain certain prepayment prohibitions. The Recreation Notes are pledged as collateral for certain borrowings (see Note 6).

(6) BORROWINGS

Borrowings consist of (in thousands):

| | Septem 20 -- |
|---|--------------------|
| Mortgage notes payable through June 2003, interest fixed at an average rate of 7.96%, collateralized by mortgages on real estate | \$181 |
| Mortgage notes payable through July 2011, interest ranging from 6.08% to 10.28% per annum, collateralized by mortgages on real estate | 165 |
| Mortgage notes payable through August 2003 under \$155 million credit facility, interest at one month LIBOR (2.64% at September 30, 2001) plus a minimum of 2.45% to a maximum of 2.95%, collateralized by mortgages on real estate | 66 |
| Mortgage notes payable through October 2008 under a mortgage loan, interest fixed at 7.00%, collateralized by mortgages on real estate | 64 |

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

Collateralized mortgage obligations, net of unamortized discount of \$268,000 and \$336,000 based on a fixed effective interest rate of 8.84%, collateralized by certain of the Recreation Notes (see Note 5) with quarterly self-amortizing principal and interest payments required through

March 2007

22

7

Other

Totals

\$499
=====

(7) SALE OF ASSETS

The Company sold one of its properties on April 13, 2001. The property was a 176,000 square foot shopping center located in Baltimore, Maryland. The center contained a vacant 94,000 square foot department store building that formerly housed a Caldor discount store. Kramont received gross proceeds of approximately \$9.2 million as a result of the sale of the property and \$2.9 million of lease terminations and buyout fees. The proceeds of the sale and related transactions were used to pay down debt obligations of approximately \$5.7 million and for general corporate purposes.

The Company sold one of its properties on August 30, 2001. The property was a 48,000 square foot shopping center located in Brookhaven, Mississippi. Kramont received gross proceeds of approximately \$1.0 million as a result of the sale of the property. The property was unencumbered and the proceeds of the sale were used for general corporate purposes.

(8) RESTRICTED SHARE AWARDS

On September 1, 2001, the Company awarded to certain executives 35,683 restricted common shares of beneficial interest at the then current market price per Common Share of \$13.06 for a total value of \$465,842. One-third of the restricted common shares vested immediately. The remaining two-thirds will vest equally on July 1, 2002 and on July 1, 2003 if the executive is an employee of the Company on the respective dates. The awarded shares entitle the executive to exercise all voting and/or consensual powers pertaining to such shares and to receive any and all dividends or other distributions on such shares. Any unvested shares shall immediately vest in the event of a change in control of the Company, the death or permanent disability of the executive or the termination of the executive without cause.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Kramont acquired its assets through the merger of Kranzco and CV Reit into Kramont, effective June 16, 2000. The Agreement and Plan of Reorganization and Merger, dated as of December 10, 2000 was adopted and approved by the shareholders of both Kranzco and CV Reit on June 6, 2000. Terms of the Merger called for holders of common shares of both companies to each receive one common share of beneficial interest of Kramont for each outstanding common share of CV Reit and Kranzco on a tax-free basis and for the holders of Kranzco preferred shares to receive in exchange for such Kranzco preferred shares, Kramont

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

preferred shares with the same rights.

RESULTS OF OPERATIONS

The Merger was accounted for as a purchase by CV Reit of Kranzco. Accordingly, the operating results of the net assets acquired are included in the consolidated financial statements from the effective date of the Merger. As a result, the Company believes the comparison for the nine month period may not be meaningful. Further, as a result of the Merger and the sale of certain mortgage notes receivable in December 2000, the Company is effectively operating in one business reporting segment.

8

Net Income

Three Months Ended September 30, 2001 and 2000

For the quarter ended September 30, 2001, net income to common shareholders of beneficial interest was \$2.4 million or \$.13 per common share compared to \$3.7 million or \$.20 per common share for the same period of 2000.

During the quarter ended September 30, 2001, rent revenue increased and operating expenses increased by \$522,000, and \$1.0 million, respectively (a net rental income decrease of \$509,000). The net decrease includes a reduction in net operating income in the amount of \$400,000 for the disposition of three properties in the fourth quarter of 2000 and the first three quarters of 2001, as well as an increase in operating expenses of \$1.1 million offset by an increase in rental revenues of \$1.0 million for the remaining portfolio.

Interest income decreased by \$818,000 during the third quarter of 2001, primarily attributable to the prepayment of the Hilcoast Note on December 22, 2000 and the scheduled repayments of mortgage notes receivable (see Note 5) , which are long term and require self-amortizing payments through 2023.

Interest expense decreased by \$1.4 million during the third quarter of 2001 as a result of decreased interest rates on floating rate debt, as well as a reduced debt balance due to the disposition of three properties in the fourth quarter of 2000 and the first three quarters of 2001, as well as the repayment of the Hilcoast Note Receivable in December 2000. Interest expense for the third quarter of 2000 also included an exit fee of \$500,000 for a credit facility that was repaid in August, 2000.

Depreciation and amortization increased by \$445,000 primarily due to capital expenditures and tenant improvements for the portfolio offset by the disposition of three properties in the fourth quarter of 2000 and the first three quarters of 2001.

General and administrative expenses increased by \$202,000 primarily due to the partial vesting of restricted shares awarded effective September 1, 2001.

Nine Months Ended September 30, 2001 and 2000

For the nine months ended September 30, 2001, net income to common shareholders of beneficial interest was \$12.3 million or \$.65 per common share compared to \$7.6 million or \$.62 per common share for the same period of 2000.

During the nine months ended September 30, 2001, rent revenue and operating expenses increased by \$35.9 million, and \$11.6 million, respectively (a net rental income increase of \$24.3 million), primarily due to the Merger.

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

Interest income decreased by \$2.1 million during the first nine months of 2001, primarily attributable to the prepayment of the Hilcoast Note on December 22, 2000 and the scheduled repayments of mortgage notes receivable (see Note 5) which are long term and require self-amortizing payments through 2023.

Interest expense increased by \$10.5 million during the first nine months of 2001 primarily as a result of increased borrowings assumed in the Merger offset by decreased interest rates on floating rate debt and a lower debt balance as a result of the disposition of three properties in the fourth quarter of 2000 and the first three quarters of 2001, as well as the repayment of the Hilcoast Note Receivable in December 2000. Interest expense during the nine months of 2000 also included an exit fee of \$500,000 for a credit facility that was repaid in August, 2000.

9

Depreciation and amortization increased by \$5.5 million during the first nine months primarily due to the addition of 60 shopping centers as a result of the Merger.

General and administrative expenses increased by \$3.0 million during the first nine months primarily due to higher professional fees and increased personnel as a result of the Merger and performance related bonuses, as well as the partial vesting of restricted shares awarded effective September 1, 2001.

Funds From Operations

Funds From Operations ("FFO"), as defined by the National Association of Real Estate Investment Trusts (NAREIT), consists of net income (computed in accordance with generally accepted accounting principles) before depreciation and amortization of real property, extraordinary items and gains and losses on sales of real estate.

The following schedule reconciles FFO to net income (in thousands):

| | Three Months Ended September 30, | |
|--|-------------------------------------|------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Net income to common shareholders | \$ 2,441 | \$ 3,691 |
| Depreciation and amortization of real property (including unconsolidated affiliates) * | 3,756 | 3,339 |
| (Gain) loss on sale of real estate * | 112 | -- |
| | ----- | ----- |
| FFO | \$ 6,309 | \$ 7,030 |
| | ===== | ===== |
| Average common shares outstanding: | | |
| Basic | 18,830,748 | 18,752,912 |
| | ===== | ===== |
| Diluted | 18,844,142 | 18,753,077 |
| | ===== | ===== |

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

* Net of amounts attributable to minority interests.

The Company believes that FFO is an appropriate measure of operating performance because real estate depreciation and amortization charges are not meaningful in evaluating the operating results of the Company's properties and certain extraordinary items, such as the gain on the sale of real estate and deferred income tax benefit, would distort the comparative measurement of performance and may not be relevant to ongoing operations. However, FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and should not be considered as an alternative to either net income as a measure of the Company's operating performance or to cash flows from operating activities as an indicator of liquidity or cash available to fund all cash flow needs. In addition, since other REIT's may not calculate FFO in the same manner, FFO presented herein may not be comparable to that reported by other REIT's.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated Statements of Cash Flows

Net cash provided by operating activities, as reported in the Consolidated Statements of Cash Flows, amounted to \$20.9 million for the nine months ended September 30, 2001 compared to \$13.5 million for the same period in 2000. These amounts primarily reflect increased operating income as a result of the Merger.

10

Net cash provided by investing activities for the nine months ended September 30, 2001 increased to \$1.1 million from net cash used in investing activities of \$3.0 million for the same period in 2000. The 2001 amount reflects \$10.2 million in proceeds from the sale of real estate and \$1.3 million of collections on mortgage notes receivable, offset by \$9.7 million of capital improvements, as well as payments of \$417,000 towards accrued acquisition costs. The 2000 amounts reflect \$5.3 million received in the Merger and \$1.2 million of collections on mortgage notes receivable partially offset by \$5.3 million used for Merger costs, \$2.5 million of capital improvements as well as an increase in restricted cash of \$1.7 million.

Net cash used in financing activities amounted to \$25.3 million for the nine months ended September 30, 2001 while net cash used in financing activities was \$6.7 million in the same period in 2000. The 2001 amounts consist of cash distributions of \$18.3 million to common shareholders, \$5.6 million to preferred shareholders and \$1.3 to minority interests, as well as a net \$804,000 repayment of borrowings. The 2000 amounts primarily consist of cash distributions of \$10.7 million to common shareholders, \$2.0 million to preferred shareholders, \$1.3 million to minority interests as well as a net \$7.3 million of proceeds from borrowings.

Borrowings

At September 30, 2001, borrowings were \$499.5 million. Scheduled principal payments over the remainder of this year and the next four years are \$371.4 million with \$128.1 million due thereafter. Borrowings consist of \$410.6 million of fixed rate indebtedness, with a weighted average interest rate of 7.76% at September 30, 2001, and \$88.9 million of variable rate indebtedness with a weighted average interest rate of 6.60% at September 30, 2001. The borrowings are collateralized by a substantially all of the Company's real estate and the Recreation Notes. The Company expects to refinance certain of these borrowings, at or prior to maturity, through new mortgage loans on real estate. The ability

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

to do so, however, is dependent upon various factors, including the income level of the properties, interest rates and credit conditions within the commercial real estate market. Accordingly, there can be no assurance that such refinancing can be achieved.

As of September 30, 2001, aggregate principal payments on all outstanding indebtedness were due, as follows (in thousands):

| | |
|------------|-----------|
| 2001 | \$ 5,001 |
| 2002 | 14,310 |
| 2003 | 287,989 |
| 2004 | 51,704 |
| 2005 | 12,412 |
| Thereafter | 128,074 |
| | ----- |
| | \$499,490 |
| | ===== |

Effective August 1, 2000, the Company entered into an Amended and Restated Loan and Credit Facility Agreement (the "Amended Facility") with GMAC Commercial Mortgage ("GMAC") wherein GMAC increased an existing \$100 million facility to a \$155 million facility. The Amended Facility is a non-revolving line of credit with individual loan terms of three years if funds are advanced within the first twelve months, and two years if funds are advanced during the thirteenth through the eighteenth months. Advances under the Amended Facility: (1) must be secured by assets based on specified aggregate loan to value and debt service coverage ratios, (2) bear interest at an annual rate of one month LIBOR plus a spread ranging from 245 to 295 basis points, based on loan to value ratios, and (3) may be drawn only during the first eighteen months of the credit facility. Additional provisions include a -1/2% commitment fee, a minimum net worth covenant of \$175.0 million, cross-default and cross-collateralization requirements with respect to debt and properties within the Amended Facility, and under certain conditions an exit fee. Advances under the Amended Facility may be used to fund acquisitions, expansions, renovations, financing and refinancing of real estate. As of September 30, 2001, the Company had \$66.1 million outstanding under the \$155.0 million Amended Facility, including \$39.6 million that was funded upon closing the Amended Facility on August 1, 2000. These

11

proceeds, along with \$1.2 million in cash, were used to pay off a line of credit that was assumed by the Company in the Merger and matured on August 1, 2000. Interest rate caps in the notional amount of \$87.3 million were purchased upon closing of the Amended Facility. Pursuant to the Amended Facility, the Company is required to make monthly escrow payments for the payment of tenant improvements and repair reserves.

In 1996, Kranzco entered into a seven year, fixed rate real estate mortgage loan in the principal amount of \$181.7 million (the "Mortgage Loan"), at a weighted average interest rate of 7.96%, which is inclusive of trustee and servicing fees. The Mortgage Loan is secured by twenty-seven shopping center properties (the "Mortgaged Properties"). The entire outstanding principal balance of the Mortgage Loan is due in June 2003. The Mortgage Loan requires maintenance of a sinking fund account and a capital and tenant improvement (TI) reserve account. All funds in the capital and TI reserve account may be used to fund capital improvements, repairs, alterations, tenant improvements and leasing commissions at the Mortgaged Properties.

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

In 1998, Kranzco obtained a \$65.9 million fixed rate mortgage from Salomon Brothers Realty Corp. This loan is secured by a first mortgage on nine properties acquired by Kranzco in September 1998. The mortgage loan bears a fixed interest rate of 7% per annum and requires monthly payments of interest and principal based on a 30-year amortization. The mortgage matures on October 1, 2008. The outstanding balance on the mortgage was approximately \$64.0 million as of September 30, 2001. Pursuant to the mortgage, the Company is required to make monthly escrow payments for the payment of tenant improvements and repair reserves.

In addition, the Company has thirty mortgage loans outstanding as of September 30, 2001, which were primarily assumed in connection with various acquisitions of certain shopping centers. These mortgage loans have maturity dates ranging from 2001 through 2011. Twenty-one of the thirty mortgage loans have fixed interest rates ranging from 6.08% to 10.28%. The outstanding principal balance on these mortgage loans at September 30, 2001 was approximately \$142.2 million. Three mortgage loans with an outstanding principal balance at September 30, 2001 of \$3.2 million have interest rates payable at a rate adjusted each year equal to the sum of Moody's A Corporate Bond Index Daily Rate plus 0.125% per annum, rounded up to the next highest 1/8 percentage rate. Two mortgage loans with an outstanding principal balance at September 30, 2001 of \$6.4 million have interest rates payable at a rate adjusted each year equal to the sum of Moody's A Corporate Bond Index Daily Rate minus 0.125% per annum, rounded up to the next highest 1/8 percentage rate. One mortgage loan with an outstanding principal balance at September 30, 2001 of \$1.5 million has an interest rate payable at a rate adjusted monthly to the sum of 30 day LIBOR plus 2.5%. One mortgage loan with an outstanding principal balance at September 30, 2001 of \$3.2 million has an interest rate payable at a rate adjusted monthly to the sum of 30 day LIBOR plus 1.6%. One mortgage loan with an outstanding principal balance at September 30, 2001 of \$3.9 million has an interest rate payable at a rate adjusted semi-annually to the sum of 6 month LIBOR plus 1.85%. One mortgage loan with an outstanding principal balance at September 30, 2001 of \$4.6 million has an interest rate payable at a rate adjusted monthly to the sum of the bank's prime rate plus .25%.

The Company also has \$22.6 million of borrowings consisting of collateralized mortgage obligations, net of unamortized discount, with a fixed effective interest rate of 8.84% which are collateralized by the Recreation Notes and require self-amortizing principal and interest payments through March 2007.

The Company has a secured line of credit with Wilmington Trust of Pennsylvania in the amount of \$3.5 million with an interest rate payable at a rate adjusted monthly to the sum of 30 day LIBOR plus 1.8%. At September 30, 2001 there was no outstanding balance on this line of credit

On July 12, 2001, the Company established a secured line of credit in the amount of \$3.2 million with First Union National Bank. This line has an interest rate payable at a rate adjusted monthly to the sum of 30 day

12

LIBOR plus 1.8%. No amounts were outstanding at September 30, 2001 on this line of credit.

Capital Resources

The Company's funds are generated from rent revenue net of operating expense from income producing properties and, to a much lesser extent, interest income on the mortgage notes receivable. The Company believes that the operating funds will be sufficient in the foreseeable future to fund operating and

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

administrative expenses, interest expense, recurring capital expenditures and distributions to shareholders in accordance with REIT requirements. Sources of capital for non-recurring capital expenditures and scheduled principal payments, including balloon payments, on outstanding borrowings are expected to be obtained from property refinancings, scheduled principal repayments on the mortgage notes receivable, sales of non-strategic real estate, the Company's lines of credit and/or potential debt or equity financings in the public or private markets.

Subsequent Events

The Company sold one of its properties on October 12, 2001. The property was a 108,000 square foot shopping center located in Frederick, Maryland. As a result of the sale, Kramont received gross proceeds of approximately \$7.6 million. The proceeds of the sale were used to pay down debt obligations of approximately \$3.4 million and for general corporate purposes.

INFLATION

During recent years, the rate of inflation has remained at a low level and has had minimal impact on the Company's operating results.

Most of the tenant leases contain provisions designed to lessen the impact of inflation. These provisions include escalation clauses which generally increase rental rates annually based on cost of living indexes (or based on stated rental increases which are currently higher than recent cost of living increases), and percentage rentals based on tenant's gross sales, which generally increase as prices rise. Many of the leases are for terms of less than ten years which increases the Company's ability to replace those leases which are below market rates with new leases at higher base and/or percentage rentals. In addition, most of the leases require the tenants to pay their proportionate share of increases in operating expenses, including common area maintenance, real estate taxes and insurance. However, in the event of significant inflation, the Company's operating results could be adversely affected if general and administrative expenses and interest expense increases at a rate higher than rent income or if the increase in inflation exceeds rent increases for certain tenant leases which provide for stated rent increases (rather than based on cost of living indexes).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary exposure to market risk is to changes in interest rates. The Company has both fixed and variable rate debt. The Company has \$499.5 million of debt outstanding as of September 30, 2001 of which \$410.6 million, or 82.2%, has been borrowed at fixed rates ranging from 6.08% to 10.28% with maturities through 2011. As these debt instruments mature, the Company typically refinances such debt at their existing market interest rates which may be more or less than interest rates on the maturing debt. Changes in interest rates have different impacts on the fixed and variable rate portions of the Company's debt portfolio. A change in interest rates impacts the net market value of the Company's fixed rate debt, but has no impact on interest incurred or cash flows on the Company's fixed rate debt. Interest rate changes on variable debt impacts the interest incurred and cash flows but does not impact the net market value of the debt instrument. Based on the variable rate debt of the Company as of September 30, 2001, a 100 basis point increase in interest rates would result in an additional \$748,000 in interest incurred per year and a 100 basis point decline would lower interest incurred by \$748,000 per year. To ameliorate the risk of interest rate

Edgar Filing: KRAMONT REALTY TRUST - Form 10-Q

increases, the Company has entered into interest rate swap and cap agreements in the notional amounts of \$32.5 million and \$87.3 million, respectively.

FORWARD LOOKING INFORMATION: CERTAIN CAUTIONARY STATEMENTS

Certain statements contained in "Management's Discussion and Analysis of Results of Operations and Financial Condition" and elsewhere in this Form 10-Q, that are not related to historical results, are forward looking statements, such as anticipated liquidity and capital resources, completion of potential acquisitions and collectibility of mortgage notes receivable. The matters referred to in forward looking statements are based on assumptions and expectations of future events which may not prove to be accurate and which could be affected by the risks and uncertainties involved in the Company's business; many of which cannot be predicted with accuracy and some of which might not even be anticipated. Prospective investors are cautioned that any such statements are not guarantees of future performance and that actual results may differ materially from those projected and implied in the forward-looking statements. These risks and uncertainties include, but are not limited to, the burden of the Company's substantial debt obligations; the risk that the Company may not be able to refinance its debt obligations on reasonable terms, if at all; the highly competitive nature of the real estate leasing market; adverse changes in the real estate leasing markets, including, among other things, competition with other companies; general economic and business conditions, which will, among other things, affect demand for retail space or retail goods, availability and creditworthiness of prospective tenants and lease rents; financial condition and bankruptcy of tenants, including disaffirmance of leases by bankrupt tenants; the availability and terms of debt and equity financing; risks of real estate acquisition, expansion and renovation; construction and lease-up delays; the level and volatility of interest rates; governmental actions and initiatives; environmental/safety requirements, as well as certain other risks described in this Form 10-Q. Subsequent written and oral forward looking statements attributable to the Company or persons acting on the Company's behalf are expressly qualified in their entirety by cautionary statements in this paragraph and elsewhere described in this Form 10-Q and in other reports the Company filed with the Securities and Exchange Commission.

PART II. OTHER INFORMATION

- | | |
|---------|---|
| ITEM 1. | Legal Proceedings |
| | None. |
| ITEM 2. | Changes in Securities and Use of Proceeds |
| | None. |
| ITEM 3. | Defaults upon Senior Securities |
| | None. |
| ITEM 4. | Submission of Matters to a Vote of Security Holders |
| | None. |
| ITEM 5. | Other Information |
| | Not Applicable. |

ITEM 6. Exhibits and Reports on Form 8-K:

None.

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.

KRAMONT REALTY TRUST

(Registrant)

November 13, 2001

/s/ Louis P. Meshon, Sr.

Louis P. Meshon Sr., President

November 13, 2001

/s/ Etta M. Strehle

Etta M. Strehle, Chief Financial
Officer and Treasurer