

CRT PROPERTIES INC
Form 10-Q
August 08, 2005

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended **JUNE 30, 2005** or

**o 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 **1-9997**

CRT PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

FLORIDA

(State or other jurisdiction of
incorporation or organization)

59-2898045

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

225 NE MIZNER BOULEVARD, SUITE 200

BOCA RATON, FLORIDA

(Address of principal executive offices)

33432

(Zip Code)

Registrant's telephone number, including area code: **(561) 395-9666**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, \$.01 par value

Outstanding at July 29, 2005
31,852,370 shares

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CRT PROPERTIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited and amounts in thousands, except share data)

	June 30, 2005	December 31, 2004
ASSETS		
Real Estate Investments:		
Operating properties:		
Land	\$ 164,420	\$ 162,988
Buildings	1,269,850	1,189,658
Furniture and equipment	3,758	3,747
Accumulated depreciation	(238,182)	(215,587)
Operating properties, net	1,199,846	1,140,806
Undeveloped land held for investment	14,628	14,628
Cash and cash equivalents	11,801	32,717
Restricted cash	8,222	15,964
Accounts receivable, net of allowance for uncollectible accounts of \$1,325 and \$1,169	2,750	2,839
Straight-line rents receivable	28,999	20,118
Fair value of in-place leases	9,668	10,695
Investment in unconsolidated entity		3,217
Other assets	44,414	43,282
TOTAL ASSETS	\$ 1,320,328	\$ 1,284,266
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Mortgages and loans payable	\$ 676,971	\$ 623,467
Accounts payable	11,121	8,584
Accrued real estate taxes payable	11,613	2,414
Accrued liabilities other	13,234	24,259
Dividends payable	11,448	11,365
Advance rents and security deposits	9,307	9,039
Total Liabilities	733,694	679,128
Minority interest	13,294	11,179
Shareholders Equity:		
Preferred stock, \$.01 par value; 50,000,000 shares authorized; liquidation preference of \$25 per share; 2,990,000 shares issued and outstanding	30	30

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Common stock, \$.01 par value; 100,000,000 shares authorized; 40,352,351 and 40,115,540 shares issued; 31,852,370 and 31,614,502 shares outstanding	403	401
Capital in excess of par value	767,896	762,642
Unearned compensation	(3,690)	
Accumulated other comprehensive loss	(536)	(536)
Dividends in excess of net income	(59,304)	(37,110)
Treasury stock, at cost; 8,499,981 and 8,501,038 shares	(131,459)	(131,468)
Total Shareholders Equity	573,340	593,959
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,320,328	\$ 1,284,266

See notes to unaudited condensed consolidated financial statements.

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CRT PROPERTIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and amounts In thousands, except per share data)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2005	2004	2005	2004
REVENUES				
Base rental revenues	\$ 43,769	\$ 36,778	\$ 86,605	\$ 71,534
Recoveries from tenants	4,799	2,582	9,590	6,095
Parking and other	1,491	1,571	2,949	2,770
Management fees	172	108	382	174
Total operating revenues	50,231	41,039	99,526	80,573
EXPENSES				
Property operations	14,397	11,534	27,713	22,481
Real estate taxes	5,785	4,502	11,429	9,091
Depreciation and amortization	13,173	9,916	25,211	19,136
General and administrative	6,817	3,167	10,922	6,011
Other	23	58	46	110
Total operating expenses	40,195	29,177	75,321	56,829
OPERATING INCOME	10,036	11,862	24,205	23,744
OTHER INCOME AND (EXPENSE)				
Interest income	69	135	184	262
Mortgage and loan interest, including amortization of deferred loan costs of \$332 and \$378 for the three months and \$1,320 and \$752 for the six months	(10,466)	(7,520)	(21,108)	(14,826)
Total other income and (expense)	(10,397)	(7,385)	(20,924)	(14,564)
INCOME (LOSS) BEFORE INCOME TAXES, MINORITY INTEREST, AND EQUITY IN EARNINGS OF UNCONSOLIDATED ENTITY	(361)	4,477	3,281	9,180
Income tax provision				
NET INCOME (LOSS) BEFORE MINORITY INTEREST AND EQUITY IN EARNINGS OF UNCONSOLIDATED ENTITY	(361)	4,477	3,281	9,180
Minority Interest	(62)		(138)	
	(423)	4,477	3,143	9,180

**NET INCOME BEFORE EQUITY IN EARNINGS
OF UNCONSOLIDATED ENTITY**

Equity in earnings of unconsolidated entity	24	110	124	241
NET INCOME (LOSS)	(399)	4,587	3,267	9,421
Dividends on preferred stock	(1,588)	(1,588)	(3,177)	(3,176)

**NET INCOME (LOSS) ATTRIBUTABLE TO
COMMON SHAREHOLDERS**

	\$ (1,987)	\$ 2,999	\$ 90	\$ 6,245
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EARNINGS (LOSS) PER SHARE:

Basic	\$ (0.06)	\$ 0.11	\$	\$ 0.24
Diluted	\$ (0.06)	\$ 0.11	\$	\$ 0.23

WEIGHTED AVERAGE SHARES:

Basic	31,822	26,840	31,787	26,455
Diluted	31,822	27,230	32,151	26,882

See notes to unaudited condensed consolidated financial statements.

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CRT PROPERTIES, INC.
CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY
(Unaudited and amounts in thousands)

	Preferred Stock		Common Stock		Capital in Excess Of Par Value	Unearned Compensation	Accumulated Other Comprehensive Loss	Dividends In Excess of Net Income	Treasury Stock	Total Share- holders' Equity
	Shares Issued	Par Value	Shares Issued	Par Value						
BALANCE AT DECEMBER 31, 2004	2,990	\$ 30	40,115	\$ 401	\$ 762,642	\$	\$ (536)	\$ (37,110)	\$ (131,468)	\$ 593,959
Issuance of restricted stock			180	2	4,098	(4,100)				
Common stock sold					16				9	25
Amortization of restricted stock award						410				410
Shares issued pursuant to long-term incentive plan			21		479					479
Options exercised			36		661					661
Dividends declared							(25,461)			(25,461)
Net Income							3,267			3,267
BALANCE AT JUNE 30, 2005	2,990	\$ 30	40,352	\$ 403	\$ 767,896	\$ (3,690)	\$ (536)	\$ (59,304)	\$ (131,459)	\$ 573,340

See notes to unaudited condensed consolidated financial statements.

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CRT PROPERTIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and amounts in thousands)

	Six Months Ended June 30,	
	2005	2004
OPERATING ACTIVITIES		
Net income	\$ 3,267	\$ 9,421
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in earnings of unconsolidated entity	(124)	(241)
Minority interest expense	138	
Depreciation and amortization	25,211	19,136
Amortization of deferred loan costs	1,320	752
Provision for uncollectible accounts	282	277
Amortization of restricted stock award	410	
Changes in assets and liabilities:		
Increase in receivables and other assets	(10,928)	(7,701)
Increase in accounts payable, accrued liabilities and other liabilities	1,477	8,742
Net cash provided by operating activities	21,053	30,386
INVESTING ACTIVITIES		
Property acquisitions	(14,990)	(83,944)
Tenant improvements to first generation space	(6,125)	(4,297)
Tenant improvements to second generation space	(5,081)	(2,106)
Building improvements	(3,618)	(7,940)
Deferred tenant costs	(2,228)	(2,371)
Additions to furniture and equipment	(11)	(114)
Decrease (Increase) in restricted cash	7,742	(809)
Investment in unconsolidated entity		(3,148)
Dividends from unconsolidated entity	57	
Net cash used in investing activities	(24,254)	(104,729)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	661	2,643
Proceeds from sales of common stock	25	100,337
Proceeds from mortgages and loans	87,000	6,000
Principal payments on mortgages and loans payable	(79,996)	(17,724)
Distributions to minority interest	(26)	
Dividends paid	(25,379)	(20,095)
Net cash (used in) provided by financing activities	(17,715)	71,161
Net decrease in cash and cash equivalents	(20,916)	(3,182)
Cash and cash equivalents beginning of period	32,717	9,163

Cash and cash equivalents	end of period	\$ 11,801	\$ 5,981
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SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the period for income taxes		\$	\$ 5
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Cash paid during the period for interest		\$ 19,799	\$ 13,966
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Non cash item-issuance of restricted stock to certain key executives		\$ 4,100	\$
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Non cash item-shares issued pursuant to long-term incentive plan		\$ 479	\$
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Non cash item-assumption of debt from real estate acquisitions		\$ 46,500	\$ 75,874
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Non cash item-issuance of assets and limited partner units for acquisitions		\$ 5,269	\$ 2,041
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See notes to unaudited condensed consolidated financial statements.

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CRT PROPERTIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS
ENDED JUNE 30, 2005 AND 2004

(Unaudited and in thousands, except per share data)

Unless the context otherwise requires, all references to the terms we, our or us CRT or the Company in this report refer collectively to CRT Properties, Inc., a Florida corporation incorporated in 1988 under the name Koger Equity, Inc., individually or together with our subsidiaries and our predecessors, unless the context requires otherwise.

1. Organization. We are a fully integrated, self-administered and self-managed equity real estate investment trust (a REIT) which develops, owns, operates, leases and manages office buildings in metropolitan areas in the southeastern United States, Maryland and Texas. We conducted our initial public offering in 1988. Our common shares are listed on the NYSE under the symbol CRO and our Series A Cumulative Redeemable Preferred Stock is listed on the NYSE under the symbol CRO-PA. As of June 30, 2005, we owned 137 office buildings containing 11.7 million rentable square feet, primarily located in more than twenty-five office projects in twelve metropolitan areas in the Southeastern United States, Maryland and Texas.

2. Pending Merger Transaction. On June 17, 2005, we entered into an Agreement and Plan of Merger (the Merger Agreement) with DRA G&I Fund V Real Estate Investment Trust (Parent) and DRA CRT Acquisition Corp., a wholly-owned subsidiary of Parent (MergerCo), and together with Parent, the Acquirors), providing for the merger of the Company with and into MergerCo (the Merger). The Acquirors represent clients advised by DRA Advisors LLC, a New York-based registered investment advisor specializing in real estate investment management services for institutional and private investors.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger each share of our common stock issued and outstanding will be converted into the right to receive \$27.80 in cash, plus unpaid dividends through the earlier of closing and September 30, 2005 (the Merger Consideration). Also at the effective time of the Merger, each outstanding option to purchase shares of our common stock will be canceled in exchange for the right to receive the excess of the Merger Consideration over the exercise price of the option.

At the effective time of the Merger, each issued and outstanding share of our 8.5% Series A Cumulative Redeemable Preferred Shares will be exchanged for a share of 8.5% Series A Cumulative Redeemable Preferred Stock of MergerCo, with terms identical to the terms of the existing preferred shares. The Merger Agreement provides that we may continue to declare and pay regularly quarterly dividends on our preferred shares.

The Merger and the transactions contemplated by the Merger Agreement have been unanimously approved by our Board of Directors. The consummation of the Merger is conditioned upon customary closing conditions, including the approval of our common shareholders, but contains no financing contingencies. While the Merger Agreement restricts our ability to solicit other proposals, the agreement permits us to consider unsolicited proposals. The Merger Agreement contains certain termination rights for both the Acquirors and us and provides that upon termination of the Merger Agreement under certain circumstances, we may be required to pay the Parent a break-up fee of \$40 million.

In connection with the Merger Agreement, DRA Growth and Income Fund V LLC has issued an unconditional guarantee for the payment and performance when due of all the liabilities, obligations and undertakings of the Acquirors (the Guaranty). The Guaranty will terminate upon the earlier of the termination of the Merger Agreement (other than as a result of default or breach by the Acquirors) or the closing of the Merger.

We are aware of two purported class action lawsuits related to the Merger Agreement filed against us, each of our

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directors and DRA Advisors LLC in the Circuit Court of the 15th Judicial Circuit, Palm Beach County, Florida. The two lawsuits allege, among other things, that the Merger Consideration is unfair and inadequate and unfairly favors insiders. In addition, the complaints allege that our directors violated their fiduciary duties by, among other things, failing to take all reasonable steps to assure the maximization of shareholder value, including the implementation of a bidding mechanism to foster a fair auction of our company to the highest bidder or the exploration of strategic alternatives that will return greater or equivalent short-term value to our shareholders. The complaints seek, among other relief, certification of the lawsuit as a class action, a declaration that the Merger is unfair, unjust and inequitable to our shareholders, an injunction preventing completion of the Merger at a price that is not fair and equitable, compensatory damages to the class, attorneys' fees and expenses, along with such other relief as the court might find just and proper.

On August 8, 2005, we entered into a memorandum with the plaintiffs in the two cases described above, pursuant to which we agreed in principal to settle these lawsuits. Under the terms of the proposed settlement, which is subject to the execution of the definitive settlement documents, completion by plaintiffs' counsel of confirmatory discovery and court approval, we agreed to make certain additional disclosures in our definitive proxy statement dated August 8, 2005, which were not contained in the preliminary proxy statement we filed with the Securities and Exchange Commission on July 15, 2005. In addition, we agreed not to oppose application by plaintiffs' counsel to the court for an award of attorneys' fees and expenses in an amount not to exceed the aggregate \$400,000, which would be paid by us or our successors.

3. Basis of Presentation and Summary of Recent Accounting Pronouncements. The condensed consolidated financial statements have been prepared by CRT. All material intercompany transactions and accounts have been eliminated in consolidation. The financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission related to interim financial statements.

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2004, included in the Form 10-K Annual Report for the year ended December 31, 2004. The accompanying balance sheet at December 31, 2004, has been derived from the audited financial statements at that date and is condensed.

All adjustments which, in the opinion of management, are necessary to fairly present the results for the interim periods have been made. Results of operations for the three and six months ended June 30, 2005 are not necessarily indicative of the results to be expected for future periods or for the full year.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment. This statement replaces SFAS 123 and establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. Public entities that do not file as small business issuers are subject to the provisions of this Statement which are effective for the Company January 1, 2006. We are currently evaluating the effects of SFAS No. 123(R) on our condensed consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Non-monetary Assets. This statement establishes standards for the measurement of exchanges of non-monetary assets and eliminates the exception from fair value measurement for non-monetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Non-monetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153's transition provisions are effective for fiscal periods beginning after June 15, 2005. We are currently evaluating the effects of SFAS No. 153 on our condensed consolidated financial statements.

4. Summary of Significant Accounting Policies and Estimates. The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. These estimates are based on historical experience and various other factors that we believe to be reasonable under the circumstances. However, actual results could differ from our estimates under different assumptions or conditions. We evaluate the reasonableness of our estimates

on an ongoing basis.

We believe the following significant accounting policies affect the significant estimates and assumptions used in the

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preparation of our condensed consolidated financial statements:

Investments in Real Estate. Rental property and improvements, including interest and other costs capitalized during construction, are included in real estate investments and are stated at cost. Expenditures for ordinary maintenance and repairs are expensed to operations as they are incurred. Significant renovations and