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KONOVER PROPERTY TRUST INC  
Form 10-Q  
August 14, 2001

FORM 10-Q

Securities and Exchange Commission  
Washington, D.C. 20549

Quarterly Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the quarterly period ended June 30, 2001

or

Transition Report Pursuant to Section 13 or 15 (d) of  
the Securities Exchange Act of 1934

Commission File Number 1-11998

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

KONOVER PROPERTY TRUST, INC.  
(Exact name of registrant as specified in its charter)

Maryland 56-1819372  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

3434 Kildaire Farm Road  
Suite 200  
Raleigh, North Carolina (919) 372-3000 27606  
(Address of principal executive offices) (Registrant's telephone (Zip Code)  
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 the past 90 days.

Yes X No  
--- ---

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 31,392,017 shares of Common Stock, \$0.01 par value, as of August 8, 2001.

KONOVER PROPERTY TRUST, INC.

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KONOVER PROPERTY TRUST, INC.

Consolidated Balance Sheets

		June 30, 2001 (Unaudited)
	<b>Assets</b>	
Income producing properties:		
Land		\$ 45,000
Buildings and improvements		221,700
Deferred leasing and other charges		15,800
		282,600
Accumulated depreciation and amortization		(28,700)
		253,900
Properties under development		25,100
Properties held for sale		245,700
Other assets:		
Cash and cash equivalents		1,000
Restricted cash		14,200
Tenant and other receivables, net allowance of \$2,316 and \$2,069 at June 30, 2001 and December 31, 2000, respectively		8,100
Notes receivable		500
Investment in and advances to unconsolidated entities		21,600
Deferred charges and other assets		11,900
		58,700
		\$ 582,400
	<b>Liabilities and Stockholders' Equity</b>	
Liabilities:		
Debt on income properties		\$ 405,600
Capital lease obligations		300
Accounts payable and other liabilities		22,300
		428,300
Commitments and contingencies		
Minority interests		4,100
		432,400
Stockholders' equity:		
Convertible preferred stock, Series A, 5,000,000 shares authorized, 780,680 issued and outstanding at June 30, 2001 and December 31, 2000		18,600
Stock purchase warrants		
Common stock, \$0.01 par value, 100,000,000 shares authorized, 31,364,996 and 31,274,845 issued and outstanding at June 30, 2001 and December 31, 2000, respectively		300,000
Additional paid-in capital		286,700
Accumulated deficit		(155,500)
Deferred compensation - Restricted stock plan		(2,000)
		149,900
		432,400

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

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KONOVER PROPERTY TRUST, INC.

Consolidated Statements of Operations  
(Unaudited)

	Three 2001
	----- (in thousand)
Rental operations:	
Revenues:	
Base rents	\$ 17,1
Percentage rents	3
Property operating cost recoveries	3,8
Other income	3
	-----
	21,6
	-----
Property operating costs:	
Common area maintenance	2,8
Utilities	6
Real estate taxes	2,1
Insurance	2
Marketing	
Other	1,0
	-----
	7,0
Depreciation and amortization	6,4
	-----
	13,4
	-----
	8,1
	-----
Other expenses:	
General and administrative	1,6
Stock compensation amortization	1
Severance and other related costs	9
Interest, net	7,8
	-----
(Loss) income from operations	(2,3)
Loss on sale of real estate	
Adjustment to carrying value of property	105,1
Abandoned transaction costs	
Equity in losses of unconsolidated entities:	
Technology venture operations	
Real estate operations	4,8
	-----
Loss before minority interest	(112,3)
Minority interest	3,1

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Net loss	(109,1
Preferred dividends	
Net loss applicable to common stockholders	\$ (109,1
Basic loss applicable to common stockholders per share	\$ (3.
Weighted-average number of common shares outstanding	31,2
Diluted loss applicable to common stockholders per share	\$ (3.
Weighted-average number of diluted shares outstanding	31,2

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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KONOVER PROPERTY TRUST, INC.

Consolidated Statements of Operations  
(Unaudited)

	Six 2001
	(in thousand)
Rental operations:	
Revenues:	
Base rents	\$ 34,2
Percentage rents	5
Property operating cost recoveries	7,5
Other income	1,7
	44,1
Property operating costs:	
Common area maintenance	5,4
Utilities	1,3
Real estate taxes	4,3
Insurance	6
Marketing	1
Other	2,0
	14,0
Depreciation and amortization	12,5
	26,5
	17,5
Other expenses:	

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General and administrative	3,6
Stock compensation amortization	5
Severance and other related costs	5,9
Interest	15,5
(Loss) income from operations	(8,1)
Loss on sale of real estate	
Adjustment to carrying value of property	105,1
Abandoned transaction costs	
Equity in losses of unconsolidated ventures:	
Technology venture	
Real estate operations	5,0
Loss before minority interest	(118,3)
Minority interest	3,2
Net loss	(115,0)
Preferred dividends	(2)
Net loss applicable to common stockholders	\$ (115,3)
Basic loss applicable to common stockholders per share	\$ (3.)
Weighted-average number of common shares outstanding	31,2
Diluted loss applicable to common shareholders per share	\$ (3.)
Weighted-average number of diluted shares outstanding	31,2

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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KONOVER PROPERTY TRUST, INC.

Consolidated Statement of Stockholders' Equity

Six months ended June 30, 2001  
(Unaudited)

(in thousands except per share data)

	Convertible Preferred Stock	Stock Purchase Warrants	Common
Balance at December 31, 2000	\$ 18,679	\$ 9	\$ 3
Issuance of 7,573 employee stock purchase plan shares	-	-	
Issuance of 11,892 restricted shares	-	-	
Repurchase of 13,395 restricted shares	-	-	
Cancellation of 8,253 restricted shares	-	-	
Exercise of stock purchase rights for 5,436 shares			

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of restricted stock	-	-	-
Stock options issued for services	-	-	-
OP units converted into 86,898 shares of common stock	-	-	-
Compensation under stock plans	-	-	-
Preferred stock dividends (\$0.125 per share)	-	-	-
Common stock dividends (\$0.125 per share)	-	-	-
Net loss	-	-	-
Balance at June 30, 2001	\$ 18,679	\$ 9	\$ 3

	Accumulated Deficit	Restricted Stock Plan
Balance at December 31, 2000	\$ (40,481)	\$ (364)
Issuance of 7,573 employee stock purchase plan shares	-	-
Issuance of 11,892 restricted shares	-	(60)
Repurchase of 13,395 restricted shares	-	-
Cancellation of 8,253 restricted shares	-	46
Exercise of stock purchase rights for 5,436 shares of restricted stock	-	-
Stock options issued for services	-	-
OP units converted into 86,898 shares of common stock	-	-
Compensation under stock plans	-	152
Preferred stock dividends (\$0.125 per share)	-	-
Common stock dividends (\$0.125 per share)	-	-
Net loss	(115,099)	-
Balance at June 30, 2001	\$ (155,580)	\$ (226)

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

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KONOVER PROPERTY TRUST, INC.

Consolidated Statements of Cash Flows  
(Unaudited)

Cash flows from operating activities:	
Net loss	\$ (115
Adjustments to reconcile net loss to net cash provided by operating activities:	

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Amortization of debt premium	
Minority interest	(3)
Depreciation and amortization	12
Stock compensation amortization	
Loss on sale of real estate	
Adjustments to carrying value of property	105
Adjustments to carrying value of other assets held for sale	4
Abandoned transaction costs	
Amortization of deferred financing costs	1
Technology venture operations	
Net changes in:	
Tenant and other receivables	(1)
Deferred charges and other assets	
Accounts payable and other liabilities	
	-----
Net cash provided by operating activities	3
	-----
Cash flows from investing activities:	
Investment in income-producing properties	(7)
Net proceeds from sale of real estate	
Payments received on notes receivable, net	
Investment in and advances to unconsolidated entities	
Change in restricted cash	(2)
	-----
Net cash used in investing activities	(10)
	-----
Cash flows from financing activities:	
Proceeds from debt on income properties	10
Repayment of debt on income properties	(4)
Expenses related to sale of common stock	
Deferred financing charges	
Other debt repayments	
Issuance of shares under employee stock purchase plan	
Dividends paid	(8)
Exercise of stock purchase rights	
Repurchase of common stock	
	-----
Net cash (used in) provided by financing activities	(2)
	-----
Net decrease in cash and cash equivalents	(9)
Cash and cash equivalents at beginning of period	10
	-----
Cash and cash equivalents at end of period	\$ 1
	=====
Supplemental disclosures of cash flow information:	
Cash paid during the period for interest	\$ 16
	=====

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.



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### Organization

Konover Property Trust, Inc. (the "Company"), formerly FAC Realty Trust, Inc., was incorporated on March 31, 1993 as a self-advised and self-managed real estate investment trust (REIT). The Company is principally engaged in the acquisition, development, ownership and operation of retail shopping centers. The Company's revenues are primarily derived under real estate leases with national, regional and local retailing companies.

On June 30, 2001, the Company's owned properties consisted of:

1. 31 community shopping centers in six states aggregating approximately 4,003,000 square feet;
2. 35 centers with approximately 5,397,000 square feet that are held for sale; and
3. One center under development which is scheduled for completion in Fall 2001.

In addition, the Company had investments in:

- . four joint-venture community centers/developments which will consist of 344,000 square feet;
- . a land-development joint venture consisting of approximately 2,700 acres; and
- . third-party management company with 6.9 million square feet under management or leasing contracts.

The weighted-average square feet of gross leasable area was 9.4 million square feet for the six months ended June 30, 2001 and 9.5 million square feet for the same period in 2000.

On December 17, 1997, following shareholder approval, the Company changed its domicile from the State of Delaware to the State of Maryland. The reincorporation was accomplished through the merger of FAC Realty, Inc. into its Maryland subsidiary, Konover Property Trust, Inc. (formerly FAC Realty Trust, Inc.). Following the reincorporation on December 18, 1997, the Company reorganized as an umbrella partnership real estate investment trust (an "UPREIT"). The Company then contributed to KPT Properties, L.P. (formerly FAC Properties, L.P.), a Delaware limited partnership (the "Operating Partnership"), all of its assets and liabilities. In exchange for the Company's assets, the Company received limited partnership interests ("Units") in the Operating Partnership in an amount and designation that corresponded to the number and designation of outstanding shares of capital stock of the Company at the time. The Company is the sole general partner of the Operating Partnership and owns a 97% interest as of June 30, 2001. As additional limited partners are admitted to the Operating Partnership in exchange for the contribution of properties, the Company's percentage ownership in the Operating Partnership will decline. As the Company issues additional shares of capital stock, it will contribute the proceeds for that capital stock to the Operating Partnership in exchange for a number of Units equal to the number of shares that the Company issues. The Company conducts all of its business and owns all of its assets through the Operating Partnership (either directly or through subsidiaries) such that a Unit is economically equivalent to a share of the Company's common stock.

An UPREIT may allow the Company to offer Units in the Operating Partnership in exchange for ownership interests from tax-motivated sellers. Under certain circumstances, the exchange of Units for a seller's ownership interest will enable the Operating Partnership to acquire assets while allowing the seller to defer the tax liability associated with the sale of such assets.

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Effectively, this allows the Company to use Units instead of stock to acquire properties, which provides an advantage over non-UPREIT entities.

The Company has a majority interest in two taxable subsidiaries, Sunset KPT Investment, Inc. and truefinds.com, Inc., both organized under the laws of Delaware. Sunset KPT Investment, Inc. has the ability to develop properties, buy and sell properties, provide equity to developers and perform third-party management, leasing and brokerage services. truefinds.com, Inc. attempted to commercialize an apparel-sizing technology. The operations of truefinds.com, Inc. have been suspended. The Company holds substantially all of the non-voting common stock of these taxable subsidiaries.

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Substantially all of the voting common stock is held by an officer of the Company and other related parties. Accordingly, these entities are accounted for under the equity method for investments. Additionally, these taxable subsidiaries are taxed as regular corporations.

### Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company, its subsidiaries and the Operating Partnership. All significant intercompany balances have been eliminated in consolidation.

Entities that are owned by or that are owned less than 100% and are controlled by the Operating Partnership have been consolidated. Control is demonstrated by the ability of the Operating Partnership to manage, directly or indirectly, day-to-day operations, refinance debt and sell the assets of the entity that owns the property without the consent of the other owners and the inability of the other owners to replace the general partner or manager. Investments in ventures which represent noncontrolling ownership interests or where control is deemed temporary are accounted for using the equity method of accounting. These investments are recorded initially at cost and subsequently adjusted for net equity in income (loss) and cash contributions and distributions.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (primarily consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six-month period ended June 30, 2001 are not necessarily indicative of results that may be expected for a full fiscal year. For further information, refer to the audited financial statements and accompanying footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2000.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Reclassification

Certain amounts from prior years were reclassified to conform with current-year presentation. These reclassifications had no effect on net loss or

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stockholders' equity as previously reported.

2. Significant Accounting Policies

Cash and cash equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Basic and diluted income per share

Basic earnings per share is calculated by dividing the income applicable to common stockholders by the weighted-average number of shares outstanding. Diluted earnings per share reflects the potential dilution that could occur if options or warrants to purchase common shares were exercised and preferred stock was converted into common shares ("potential common shares").

For the three months ended June 30, 2001 and June 30, 2000, basic and dilutive earnings per share are computed based on a weighted average number of shares of 31,234,397 and 31,024,746, respectively. For the six months ended June 30, 2001 and June 30, 2000, basic and dilutive earnings per share are computed based on a weighted average number of shares of 31,204,118 and 30,770,340, respectively. Potential dilutive common shares have been excluded from diluted earnings per share for the three and six months ended June 30, 2001 and June 30, 2000 because their inclusion would be antidilutive.

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Dividends

No dividends were declared during the three months ended June 30, 2001.

Comprehensive Income

Comprehensive income equals net income for all periods presented.

3. Investment in and Advances to Unconsolidated Entities

A summary of the Company's investments in and advances to unconsolidated entities at June 30, 2001 and December 31, 2000 is as follows (all investments in unconsolidated entities are accounted for under the equity method):

Entity	Location	Ownership	June 30, 2001
Community Center Ventures:			
Atlantic Realty LLC (2 community centers)	Apex and Pembroke, NC	50%	\$ 2,722
Park Place KPT LLC	Morrisville, NC	50%	6,425
Falls Pointe KPT LLC	Raleigh, NC	50%	5,720
Taxable Subsidiaries (see Note 1):			
Sunset KPT Investment, Inc.		85%	6,773
truefinds.com, Inc.		95%	7
			\$ 21,647
			\$ 21,647

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During the three months ended June 30, 2001, Sunset KPT Investments, Inc. determined it will sell certain assets resulting in a \$4.3 million charge to adjust the assets to their net realizable value. This charge is included in equity in losses of unconsolidated entities in the accompanying consolidated statement of operations for the three months ended June 30, 2001.

The development of the properties in the entities listed above is subject to, among other things, completion of due diligence and various contingencies, including those inherent in development projects, such as zoning, leasing and financing. There can be no assurance that such development will be completed. All debt incurred by unconsolidated ventures is secured by their respective properties as well as various guarantees of the Company and by the Company's respective venture partners.

#### 4. Reportable Segments

Management has determined under Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information", that it has four reportable segments: community centers, outlet centers, Vanity Fair ("VF") anchored centers, and centers held for sale. The outlet segment includes properties which generate a majority of their revenue from traditional outlet manufacturers and are destination oriented. The VF anchored segment includes properties that have less than \$1.5 million in total revenue, generate at least 20% of their revenue from VF and have less than 150,000 square feet. Due to the significance of certain planned transactions involving held-for-sale properties, the Company has included properties under development or redevelopment in the other segment column. The prior year segment presentation has been restated to reflect this change. The Company evaluates performance and allocates resources based on the net operating income (NOI) of the Company's investment portfolio. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The Company's reportable segments are business units that offer retail space to varied tenants and in varied geographical areas.

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(All data in thousands)

	Community Centers / (1) /	Outlet Centers / (1) /	VF Centers / (1) /	Held for Sale / (1)
Six months ended June 30, 2001:				
NOI	\$ 12,488	\$ -	\$ -	\$ 17,372
Total Assets	\$ 244,351	\$ -	\$ -	\$ 257,837
Six months ended June 30, 2000:				
NOI	\$ 18,397	\$ 9,689	\$ 2,062	\$ 722
Total Assets	\$ 373,271	\$ 188,778	\$ 44,292	\$ 38,750

- (1) See Footnote 6 for detail on properties moved to held-for-sale segment during the quarter ended June 30, 2001.
- (2) Includes investment in and advances to unconsolidated entities, properties under development, cash and other corporate assets.

#### 5. Severance and Other Related Costs

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C. Cammack Morton resigned as an officer and director of the Company on March 6, 2001. In connection with his resignation, the Company and Mr. Morton entered into a Separation Agreement and General Release. Under the separation agreement, which was a complete settlement of Mr. Morton's rights under his former employment agreement, the Company paid Mr. Morton \$2.5 million in cash and released him from the non-compete restrictions in his employment agreement. In addition, the parties agreed upon Mr. Morton's rights under various equity awards.

Mr. Morton agreed that his 225,851 vested in-the-money Repurchase Rights and 300,000 vested out-of-the-money Repurchase Rights would remain outstanding (and entitled to dividend equivalent rights) until April 1, 2002. He also agreed to the immediate cancellation of his remaining 391,299 in-the-money Repurchase Rights in exchange for an additional cash payment of \$900,000, of which the Company has already paid \$400,000 and will pay the remaining \$500,000 in January 2002. Mr. Morton also forfeited his interest in 140,000 out-of-the-money Repurchase Rights and 210,000 out-of-the-money stock options in exchange for \$35,000 in cash.

Patrick M. Miniutti's employment with the Company terminated on March 6, 2001, and he resigned from the Board of Directors on March 30, 2001. In complete settlement of all rights under his former employment agreement, Mr. Miniutti entered into a Separation and Settlement Agreement and General Release with the Company on March 30, 2001. Pursuant to the agreement, the Company paid a severance benefit to Mr. Miniutti consisting of \$1.5 million in cash (payable in five equal monthly installments) and the forgiveness of a \$125,000 loan. The Company also released Mr. Miniutti from the non-compete restrictions imposed by his employment agreement.

In addition, in exchange for the issuance of 259,545 shares of common stock (the "Settlement Shares"), Mr. Miniutti agreed to the immediate cancellation of all rights (including dividend equivalent rights) with respect to all equity awards granted by the Company. The shares are issuable upon the earlier of April 1, 2002, the sale of 50% or more of the Company's voting securities, the liquidation or winding-up of the Company or the payment by Mr. Miniutti of an amount equal to the Company's tax withholding obligations on the Settlement Shares. Under the agreement, Mr. Miniutti is entitled to dividend equivalent payments with respect to the Settlement Shares for any record date occurring after March 30, 2001 but before the issuance of the Settlement Shares.

In addition to the \$5.1 million of severance noted above, the Company recorded a charge of \$0.8 million for additional severance and legal fees for Mr. Morton, Mr. Miniutti and eight other Company employees in the quarter ended March 31, 2001. The total severance and other related costs of \$5.9 million is partially offset by a \$0.9 million reduction in previously amortized stock compensation for Mr. Morton and Mr. Miniutti.

During the quarter ended June 30, 2001, the Company continued its cost-savings efforts including the elimination of certain positions resulting in additional terminations of employees. The total severance including cash and accelerated stock vesting totaled \$0.9 million during the quarter ended June 30, 2001.

### 6. Properties Held for Sale

As part of the Company's ongoing strategic evaluation of its portfolio of assets, the Company has classified the following properties as held for sale as of June 30, 2001:

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- a) The Company's centers in Las Vegas and Nashville are presented as held for sale consistent with prior periods. These centers are currently being marketed.
- b) During the second quarter, the Company received unsolicited offers on two community centers totaling 571,000 square feet. In July 2001, the Company entered into a contract to sell one of the centers for \$7.5 million. Both of these community centers are classified as held for sale as of June 30, 2001.
- c) On July 12, 2001, the Company entered into a contract to sell a 31-property portfolio for approximately \$180 million. The portfolio consists of nine outlet properties, 16 VF-anchored properties and six community center properties. Three of the six community centers in the portfolio have outlet tenants but meet the definition, as discussed above, of community centers due to their proximity to the local market and other property characteristics. The community centers included in the portfolio being sold because they are collateral under certain common debt facilities with certain of the outlet and VF-anchored properties. All additional references to the portfolio include a description of 28 outlet centers and three community centers. The contract has an anticipated closing date in the third quarter of 2001. In addition, the Company expects to recognize an extraordinary gain of approximately \$1.0 million upon closing this transaction due to the early extinguishment of certain debt facilities.

The Company has reported a second quarter charge of \$105.1 million related to the adjustment of the above held-for-sale properties to their net realizable value.

The following summary financial information pertains to the properties held for sale at June 30, 2001 and for the six months ended June 30 (in thousands):

	2001 ----	2000 ----
Revenues	\$ 26,902	\$ 27,435
NOI	\$ 17,372	\$ 18,376
Net income before adjustments to carrying value of property	\$ 1,788	\$ 2,152

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

This discussion should be read with the selected financial data in this section and the consolidated financial statements and notes in this report. Certain comparisons between the periods have been made on a percentage basis and on a weighted-average square-foot basis. Comparisons on a weighted-average square-foot basis adjust for square-footage added at different times during the year.

#### Selected Financial Data

The following information should be read with the consolidated financial statements and notes thereto included in this report.

Industry analysts generally consider Funds From Operations ("FFO") an

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appropriate measure of performance for an equity REIT. FFO means net income before extraordinary items (computed in accordance with accounting principles generally accepted in the United States) excluding gains or losses on the sale of real estate plus real estate depreciation and amortization. Management believes that FFO, as defined herein, is an appropriate measure of the Company's operating performance because reductions for depreciation and amortization charges are not meaningful in evaluating the operating results of its properties, which have historically been appreciating assets.

"EBITDA" is defined as revenues less operating costs, including general and administrative expenses, before interest, depreciation and amortization and unusual items. As a REIT, the Company is generally not subject to Federal income taxes. Management believes that EBITDA provides a meaningful indicator of operating performance for the following reasons: (i) it is industry practice to evaluate the performance of real estate properties based on net operating income ("NOI"), which is generally equivalent to EBITDA; and (ii) both NOI and EBITDA are unaffected by the debt and equity structure of the property owner.

FFO and EBITDA (i) do not represent cash flow from operations as defined by generally accepted accounting principles, (ii) are not necessarily indicative of cash available to fund all cash flow needs and (iii) should not be considered as an alternative to net income for purposes of evaluating the Company's operating performance or as an alternative to cash flow as a measure of liquidity.

Other data that management believes is important in understanding trends in its business and properties are also included in the following table (in thousands, except per share data).

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	Three months ended June 30,		
	2001	2000	20
<b>Operating Data:</b>			
Rental revenues	\$ 21,671	\$ 23,096	\$ 44,
Property operating costs	7,061	6,967	14,
Net operating income	14,610	16,129	30,
Depreciation and amortization	6,420	6,514	12,
General and administrative	1,676	1,727	3,
Stock compensation amortization	183	899	
Severance and other related costs	918	-	5,
Interest, net	7,802	6,791	15,
Loss on sale of real estate	-	315	
Adjustment to carrying value of property	105,110	-	105,
Abandoned transaction costs	8	5	
Equity in losses of unconsolidated entities:			
Technology venture operations	-	1,207	
Real estate operations	4,800	525	5,
Loss before minority interest	(112,307)	(1,854)	(118,
Minority interest	3,133	49	3,

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Net loss	(109,174)	(1,805)	(115,
Preferred dividends	-	(271)	(
Loss applicable to common stockholders	\$ (109,174)	\$ (2,076)	\$ (115,
Basic loss per common share:			
Net loss applicable to common stockholders per share	\$ (3.50)	\$ (0.07)	\$ (3
Weighted-average common shares outstanding	31,234	31,025	31,
Diluted loss per common share:			
Net loss applicable to common stockholders per share	\$ (3.50)	\$ (0.07)	\$ (3
Weighted-average common shares outstanding diluted	31,234	31,025	31,

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	Three months ended June 30,	
	2001	2000
Other Data:		
EBITDA:		
Net loss	\$ (109,174)	\$ (1,805)
Adjustments:		
Interest, net	7,802	6,791
Depreciation and amortization	6,420	6,514
Stock compensation amortization	183	899
Loss on sale of real estate	-	315
Adjustment to carrying value of property	105,110	-
Abandoned transaction costs	8	5
Equity in losses of unconsolidated ventures	4,800	1,732
Minority interest	(3,133)	(49)
	\$ 12,016	\$ 14,402
Funds from Operations (a):		
Net loss	\$ (109,174)	\$ (1,805)
Adjustments:		
Real estate depreciation and amortization	6,142	6,236
Loss on sale of real estate	-	315
Technology venture operations	-	1,207
Adjustment to carrying value of property	105,110	-
Share of depreciation in unconsolidated ventures	72	181
Minority interest in Operating Partnership	(3,133)	(49)
Funds From Operations	(983)	6,085
Severance and other related costs	918	-
Adjustment to carrying value of other assets		



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held for sale	4,256	-
-----		
Funds from operations, excluding severance and held for sale charges	\$ 4,191	\$ 6,085
=====		
Weighted-average shares outstanding diluted (b):	34,744	34,713
=====		
Funds Available for Distribution/Reinvestment:		
Funds from Operations	\$ (983)	\$ 6,085
Adjustments:		
Stock compensation amortization	183	899
Capitalized tenant allowances	(509)	(900)
Capitalized leasing costs	(589)	(525)
Recurring capital expenditures	(195)	(48)
-----		
Funds Available for Distribution/Reinvestment	(2,093)	5,511
Severance and other related costs	918	-
Adjustment to carrying value of other assets held for sale	4,256	-
-----		
Funds Available for Distribution/ Reinvestment, excluding severance and held for sale charges	\$ 3,081	\$ 5,511
=====		
Dividends declared on quarterly earnings	\$ -	\$ 4,635
=====		
Dividends declared on quarterly earnings per share	\$ -	\$ 0.125
=====		
Cash Flows:		
Cash flows provided by operating activities	\$ 3,497	\$ 8,028
Cash flows used in investing activities	(4,616)	(8,875)
Cash flows (used in) provided by financing activities	(2,043)	9,798
-----		
Net decrease in cash and cash equivalents	\$ (3,162)	\$ 8,951
=====		

- (a) FFO is presented in accordance with National Association of Real Estate Investment Trusts (NAREIT) Best Practices. Prior year FFO has been restated to conform with current year presentation.
- (b) The table below sets forth the computation of the denominator to be used in calculating the weighted-average shares outstanding based on SFAS No. 128, "Earnings Per Share."

	Balance at 2001
	-----
Balance Sheet Data:	
Income-producing properties, including net realizable value of properties held for sale (before depreciation and amortization)	\$ 528,360
Total assets	\$ 582,447
Debt on income properties	\$ 405,686
Total liabilities	\$ 428,395
Minority interest	\$ 4,111
Total stockholders' equity	\$ 149,941

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### Portfolio Property Data:

Total GLA (at end of period)	9,400
Weighted average GLA	9,400
Number of properties (at end of period)	66
Occupancy (at end of period):	
Operating	90.6%
Held for sale/redevelopment/development	82.1%

	Three months ended June 30,	
	2001	2000
Denominator:		
Denominator- weighted average common shares	31,234	31,025
Effect of dilutive securities:		
Preferred stock	2,169	2,169
Operating Partnership units	932	1,020
Other dilutive securities	409	499
Dilutive potential common shares	3,510	3,688
Denominator- adjusted weighted average shares and assumed conversions	34,744	34,713

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### Results Of Operations

Three Months Ended June 30, 2001 Compared to the Three Months Ended June 30, 2000

#### Net Income

The Company reported a net loss applicable to common stockholders of \$109.2 million, or \$(3.50) per common share, for the three months ended June 30, 2001. The same period in 2000 reflected a net loss applicable to common stockholders of \$2.1 million, or \$(0.07) per common share. The elements having a material impact on the change are discussed below:

- . The Company's NOI decreased by \$1.5 million, or 9%, to \$14.6 million from \$16.1 million for the same period in 2000. This decrease was partly attributable to a \$0.4 million decrease in NOI for the Company's Nashville center, a \$0.7 million decrease in NOI for the additional 34 properties held for sale and a \$0.4 million decrease in third-party management and leasing fee income.
- . The Company recognized a charge of \$105.1 million as an adjustment to the carrying value of certain held-for-sale properties during the three months ended June 30, 2001.
- . The Company recognized a charge of \$4.3 million through equity in losses of unconsolidated real estate ventures related to the impairment of certain assets held by Sunset KPT Investments, Inc.

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- . The Company recognized losses from its unconsolidated technology venture of \$1.2 million during the three months ended June 30, 2000. The operations of this venture ceased in December 2000.
- . Net interest expense increased by \$1.0 million, or 15%, to \$7.8 million from \$6.8 million for the same period in 2000.
- . The Company incurred severance and other related costs of \$0.9 million during the three months ended June 30, 2001.
- . General and administrative expenses decreased \$0.1 million and stock compensation amortization decreased \$0.7 million.

### Earnings Before Interest, Taxes, Depreciation and Amortization and Funds from Operations

EBITDA was \$12.0 million for the three months ended June 30, 2001, a decrease of \$2.4 million or 17%, from \$14.4 million for the same period in 2000. The decrease was primarily due to the decrease in NOI, as discussed above, as well as severance and other related costs incurred in 2001.

Funds from Operations ("FFO") for the three months ended June 30, 2001 decreased \$6.5 million, or 106%, to \$(1.0) million. The Company's FFO for the same period in 2000 was \$6.1 million. FFO decreased primarily as a result of:

- . \$1.5 million decrease in NOI,
- . an increase in net interest expense of \$1.0 million,
- . an increase in losses related to unconsolidated real estate venture investments of \$4.3 million and
- . \$0.9 million in severance and other related costs incurred in 2001,
- . offset by a \$0.7 million reduction of stock compensation amortization.

### Tenant Income

Base rent decreased to \$17.1 million for the three months ended June 30, 2001 from \$17.9 million for the same period in 2000. This decrease is primarily due to a decrease in base rent of \$0.5 million at the company's Nashville center and decreases related to the two properties sold in May and September 2000.

During this same period, the Company's weighted-average square feet of gross leasable area in operation decreased 1%. Gross leasable area in operation decreased by 0.1 million square feet primarily related to the sale of a property in September 2000.

Recoveries from tenants decreased for the three months ended June 30, 2001 to \$3.8 million compared to \$4.3 million in the same period of 2000. These recoveries represent contractual reimbursements from tenants of certain common area maintenance, real estate taxes and insurance costs. On a weighted-average square-foot basis, recoveries decreased 11% to \$0.40 for the three months ended June 30, 2001 when compared to \$0.45 for the same period in 2000. With respect to approximately 10% of the leased gross leasable area, the Company is obligated to pay all utilities and operating expenses.

### Other Income

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Other income decreased \$0.5 million to \$0.3 million in 2001 compared to \$0.8 million in 2000 primarily as a result of a decrease in third-party management fees and due to the timing of the recognition of leasing fee income.

### Property Operating Expenses

Property operating costs increased \$0.1 million, or 1%, to \$7.1 million in 2001 from \$7.0 million in the same period of 2000. On a weighted-average square-foot basis, operating expenses for the three months ended June 30, 2001 were \$0.75 versus \$0.74 for the same period in 2000.

### General and Administrative Expenses and Stock Compensation

General and administrative expenses including stock compensation for the three months ended June 30, 2001 decreased \$0.8 million, or 3%, to \$1.8 million in 2001 from \$2.6 million in 2000. General and administrative expense including stock compensation decreased as a percentage of revenues to 8% from 11% in 2000. The decrease is primarily related to the Company's down-sizing and cost-saving efforts.

### Severance and Other Related Costs

During the quarter ended June 30, 2001, the Company continued its cost-savings efforts including the elimination of certain positions resulting in additional terminations of employees. The total severance including cash and accelerated stock vesting totaled \$0.9 million during the quarter ended June 30, 2001.

### Depreciation

Depreciation decreased to \$6.4 million for the three months ended June 30, 2001 compared to \$6.5 million in the same period of 2000. On a weighted-average square-foot basis, depreciation and amortization remained constant at \$0.68.

### Interest Expense

Interest expense for the three months ended June 30, 2001, net of interest income of \$0.4 million, increased by \$1.0 million, or 15%, to \$7.8 million compared to \$6.8 million, net of interest income of \$1.7 million, in the same period of 2000. On a weighted-average basis, in the three months ended June 30, 2001, debt outstanding was \$405.5 million and the average interest rate was 7.9%. This compares to \$374.6 million of outstanding debt and a 7.9% average interest rate for the same period of 2000. The Company capitalized \$0.5 million of interest costs associated with its development projects during the three months ended June 30, 2001 compared to \$0.3 million in the same period of 2000. Additionally, the decrease in interest income is related to income on the Company's equity investment in real estate venture projects primarily Towne Centre in Mt. Pleasant, South Carolina, which is now wholly owned by the Company.

### Properties Held for Sale

As part of the Company's ongoing strategic evaluation of its portfolio of assets, the Company has classified the following properties as held for sale as of June 30, 2001:

- a) The Company's centers in Las Vegas and Nashville are presented as held for sale consistent with prior periods. These centers are currently being marketed.

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- b) During the second quarter, the Company received unsolicited offers on two community centers totaling 571,000 once the Company entered into a contract to sell one of the centers for \$7.5 million. Both of these community centers are classified as held for sale as of June 30, 2001.

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- c) On July 12, 2001, the Company entered into a contract with an Chelsea Property Group to sell a 31-property portfolio (the "Outlet Portfolio Sale Agreement") for approximately \$180 million. The portfolio consists of 28 outlet properties and three community center properties. The community centers included in the portfolio are collateral under certain common debt facilities. The contract has an anticipated closing date in the third quarter of 2001. In addition, the Company expects to recognize an extraordinary gain of approximately \$1.0 million upon closing this transaction due to the early extinguishment of certain debt facilities.

The Company has recorded a second quarter charge of \$105.1 million related the adjustment of the above held-for-sale properties to their net realizable value.

### Results of Operations

Six Months Ended June 30, 2001 Compared to the Six Months Ended June 30, 2000

#### Net Income

The Company reported a net loss applicable to common stockholders of \$115.1 million, or \$(3.70) per common share, for the six months ended June 30, 2001. The same period in 2000 reflected net income applicable to common stockholders of \$5.2 million, or \$(0.17) per common share. The elements having a material impact on the change are discussed below:

- . The Company's NOI decreased by \$1.1 million, or 4%, to \$30.1 million from \$31.2 million for the same period in 2000. This decrease is primarily due to a reduction of third-party management fee and leasing fee income of \$0.7 million, a decrease in NOI from the 35 properties held for sale of \$0.3 million and a decrease of \$0.1 million related to a property sold in 2000.
- . The Company recognized a charge of \$105.1 million as an adjustment to the carrying value of certain held-for-sale properties in 2001.
- . Net interest expense increased by \$2.5 million, or 19%, to \$15.6 million from \$13.1 million for the same period in 2000.
- . The Company incurred severance and other related costs of \$5.9 million during the six months ended June 30, 2001.

#### Earnings Before Interest, Taxes, Depreciation, and Amortization and Funds from Operations

EBITDA was \$20.5 million for the six months ended June 30, 2001, a decrease of \$7.4 million or 27%, from \$27.9 million for the same period in 2000. The decrease was primarily due to decreased NOI of \$1.1 million over 2000, (as described above), \$5.9 million of severance and other related costs incurred in 2001, and increased general and administrative expenses of \$0.3 million.

Funds from Operations ("FFO") for the six months ended June 30, 2001

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decreased \$12.9 million, or 105%, to \$(1.2) million. The Company's FFO for the same period in 2000 was \$12.3 million. FFO decreased primarily as a result of:

- . \$1.1 million decrease in NOI,
- . \$5.9 million in severance and other related costs incurred in 2001,
- . an increase in equity in loss in unconsolidated ventures of \$4.3 million, exclusive of losses from the technology venture operations, and
- . an increase in net interest expense of \$2.5 million.

### Tenant Income

Base rent decreased to \$34.3 million for the six months ended June 30, 2001 from \$34.9 million for the same period in 2000. The decrease in base rent for the six months ended June 30, 2001 is attributable primarily to a \$0.9 million decrease in base rent at the Company's Nashville center.

During this same period, the Company's weighted-average square feet of gross leasable area in operation decreased 1%. Gross leasable area in operation decreased by 0.1 million square feet due to the sale of a property in September 2000.

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Recoveries from tenants decreased for the six months ended June 30, 2001 to \$7.6 million compared to \$8.8 million in the same period of 2000. These recoveries represent contractual reimbursements from tenants of certain common area maintenance, real estate taxes and insurance costs. On a weighted-average square-foot basis, recoveries decreased to \$0.81 for the six months ended June 30, 2001 compared to \$0.93 for the same period in 2000. With respect to approximately 10% of the leased gross leasable area, the Company is obligated to pay all utilities and operating expenses.

### Other Income

Other income increased \$0.5 million to \$1.8 million in 2001 compared to \$1.3 million in 2000 primarily as a result of a \$1.2 million lease buyout in March 2001 offset by decreased third-party management fee and leasing fee income of \$0.7 million.

### Property Operating Expenses

Property operating costs remained stable at \$14.0 million for the six months ended June 30, 2001 and 2000. On a weighted-average square-foot basis, operating expenses increased 0.7% to \$1.49 from \$1.48.

### General and Administrative Expenses and Stock Compensation

General and administrative expenses including stock compensation for the six months ended June 30, 2001 decreased \$0.8 million, or 16%, to \$4.2 million in 2001 from \$5.0 million in 2000. General and administrative expense including stock compensation decreased as a percentage of revenues to 10% from 11% in 2000. The decrease is primarily related to the Company's down-sizing and cost-savings efforts.

### Severance and Other Related Costs

C. Cammack Morton resigned as an officer and director of the Company on

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March 6, 2001. In connection with his resignation, the Company and Mr. Morton entered into a Separation Agreement and General Release. Under the separation agreement, which was a complete settlement of Mr. Morton's rights under his former employment agreement, the Company paid Mr. Morton \$2.5 million in cash and released him from the non-compete restrictions in his employment agreement. In addition, the parties agreed upon Mr. Morton's rights under various equity awards.

Mr. Morton agreed that his 225,851 vested in-the-money Repurchase Rights and 300,000 vested out-of-the-money Repurchase Rights would remain outstanding (and entitled to dividend equivalent rights) only until April 1, 2002. He also agreed to the immediate cancellation of his remaining 391,299 in-the-money Repurchase Rights in exchange for an additional cash payment of \$900,000, of which the Company has already paid \$400,000 and will pay the remaining \$500,000 in January 2002. Mr. Morton also forfeited his interest in 140,000 out-of-the-money Repurchase Rights and 210,000 out-of-the-money stock options in exchange for \$35,000 in cash.

Patrick M. Miniutti's employment with the Company terminated on March 6, 2001, and he resigned from the Board of Directors on March 30, 2001. In complete settlement of all rights under his former employment agreement, Mr. Miniutti entered into a Separation and Settlement Agreement and General Release with the Company on March 30, 2001. Pursuant to the agreement, the Company paid a severance benefit to Mr. Miniutti consisting of \$1.5 million in cash (payable in five equal monthly installments) and the forgiveness of a \$125,000 loan. The Company also released Mr. Miniutti from the non-compete restrictions imposed by his employment agreement.

In addition, in exchange for the issuance of 259,545 shares of common stock (the "Settlement Shares"), Mr. Miniutti agreed to the immediate cancellation of all rights (including dividend equivalent rights) with respect to all equity awards granted by the Company. The shares are issuable upon the earlier of April 1, 2002, the sale of 50% or more of the Company's voting securities, the liquidation or winding-up of the Company or the payment by Mr. Miniutti of an amount equal to the Company's tax withholding obligations on the Settlement Shares. Under the agreement, Mr. Miniutti is entitled to dividend equivalent payments with respect to the Settlement Shares for any record date occurring after March 30, 2001 but before the issuance of the Settlement Shares.

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In addition to the \$5.1 million of severance noted above, the Company recorded a charge of \$0.8 million for additional severance and legal fees for Mr. Morton, Mr. Miniutti and eight other Company employees in the quarter ended March 31, 2001. The total severance and other related costs of \$5.9 million is partially offset by a \$0.9 million reduction in previously amortized stock compensation for Mr. Morton and Mr. Miniutti.

During the quarter ended June 30, 2001, the Company continued its cost-savings efforts including the elimination of additional employees. The total severance including cash and accelerated stock vesting totaled \$0.9 million during the quarter ended June 30, 2001.

### Depreciation

Depreciation decreased to \$12.5 million for the six months ended June 30, 2001 compared to \$12.7 million in the same period of 2000. On a weighted-average square-foot basis, depreciation and amortization remained constant at \$1.33 in 2001 and 2000.

### Interest Expense

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Interest expense for the six months ended June 30, 2001, net of interest income of \$1.0 million, increased by \$2.5 million, or 19%, to \$15.6 million compared to \$13.1 million, net of interest income of \$3.8 million, in the first six months of 2000. On a weighted-average basis, in the first six months of 2001, debt outstanding was \$403.4 million, and the average interest rate was 8.0%. This compares to \$370.3 million of outstanding debt and a 8.1% average interest rate in 2000. The Company capitalized \$1.0 million of interest costs associated with its development projects in the first six months of 2001 compared to \$1.2 million in the same period of 2000. Additionally, the decrease in interest income is related to income on the Company's equity investment in real estate venture projects primarily Towne Centre in Mount Pleasant, South Carolina, which is now wholly owned by the Company.

### Liquidity and Capital Resources

#### Cash Flows

The Company's cash and cash equivalents balance at June 30, 2001 was \$1.1 million. Restricted cash, as reported in the financial statements, as of such date, was \$14.3 million. The restricted cash is an amount the Company was required to escrow in connection with various loans. The escrows are required to provide additional collateral and to fund taxes, environmental and engineering work, recurring replacement costs and insurance.

Net cash provided by operating activities was \$3.8 million for the six months ended June 30, 2001. Net cash used in investing activities was \$10.5 million in that same period. The primary use of these funds included:

- . \$7.1 million invested in income-producing properties,
- . \$2.7 million placed in restricted escrows, and
- . \$0.8 million advanced to unconsolidated entities, offset by
- . \$0.1 million collected on the repayment of a note receivable.

Net cash used in financing activities was \$2.9 million for the six months ended June 30, 2001. The primary transactions included:

- . \$9.0 million for dividends paid,
- . \$4.3 million for debt repayments, offset by
- . \$10.5 million of net proceeds from debt on income-producing properties.

#### Financing Activities

The Company's policy is to finance its activities with the source of capital believed by management to be most appropriate and provide the proper balance of equity and fixed and floating rate debt. Sources may include undistributed cash flow, borrowings from institutional lenders, equity issuances, and the issuance of debt securities on a secured or unsecured basis. The Company's philosophy is to use its Funds Available for Distribution as a key source of financing.

In December 1998, the Company completed a substitution and recollateralization of its REMIC facility. This \$95 million facility was originally issued in May 1995 and was secured by 18 properties. The substitution was the first step in an effort by the Company to gain greater flexibility in the sale of assets that may no longer meet the Company's ongoing strategy. The REMIC balance as of June 30, 2001 was \$85.4 million, which was secured by 23 properties, and matures in June 2002 with the ability to prepay in December



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2001. Under the terms of the Outlet Portfolio Sale Agreement, the buyer of the outlet portfolio is to assume the REMIC Facility. See "--Outlet Portfolio Sale" below.

An acquisition line of credit was put in place in early 1997 for \$150 million. The availability under this line was based upon a predetermined formula on the Net Operating Income of the properties that secure the facility. The \$150 million line was converted into a \$60 million term loan in June 2000 and is currently secured by nine properties plus an assignment of the excess cash flow of the REMIC facility referenced above. The loan expires the earlier of December 2002 or the termination of the REMIC facility. Concurrent with the sale of the outlet portfolio, this loan is expected to be refinanced with a new \$60 million facility. See "--Outlet Portfolio Sale" below.

On March 11, 1998, the Company closed on a \$75 million, 15-year permanent credit facility. The loan has an effective rate of 7.73% and is amortized on a 338-month basis. Eleven properties secure this facility. The proceeds were used to pay down borrowings outstanding on the \$150 million credit facility. The credit facility balance as of June 30, 2001, was \$65.9 million excluding a \$6.1 million unamortized interest premium.

The Company closed on a \$46.4 million 10-year mortgage loan on Mt. Pleasant's Towne Centre in conjunction with its purchase of its partner's interest in December 2000. The 30-year amortized loan bears interest at 7.58%. Certain escrows totaling approximately \$2.1 million are in place for leasing, earnout or tenant allowance. \$1.0 million of the cash held in escrow may be replaced with a letter of credit. The balance on this loan as of June 30, 2001 was \$46.2 million.

On January 11, 2000, the Company closed on a \$5 million credit facility with a bank. In March 2000, the available borrowings were increased by \$5 million to \$10 million. The credit facility has an interest rate of LIBOR plus 2%. The balance as of June 30, 2001 was \$10 million and matures on August 31, 2001. The credit facility is secured by a community center. The Company is currently in discussions with the lender to secure an extension to this credit facility.

The Company has a \$2.5 million line of credit with a financial institution which expires on September 30, 2001. The line of credit is secured by one of the Company's income-producing community center properties and has an interest rate of prime plus 1/2%. The balance as of June 30, 2001 was \$0.4 million.

The Company may enter into additional mortgage indebtedness related to certain development projects. Generally, the Company's policy is to extend loans to unconsolidated entities only upon terms similar to those that would be made by third parties.

Any additional debt financing, including additional lines of credit, may be secured by mortgages on the properties. Such mortgages may be recourse or non-recourse or cross-collateralized or may contain cross-default provisions. The Company does not have a policy limiting the number of mortgages that may be placed on, or the amount of indebtedness that may be secured by, any particular property; however, current mortgage financing instruments do limit additional indebtedness on such properties.

### Outlet Portfolio Sale

On July 12, 2001, the Company entered into an agreement with an affiliate of Chelsea Property Group Inc. to sell a portfolio of 28 outlet shopping centers and three community centers in 17 states totaling 4.3 million square feet for \$180 million. The agreement is subject generally only to third-

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party deliverables, including but not limited to final title and survey due diligence as well as lender consents. The sale is expected to close prior to September 30, 2001.

Concurrent with the sale of the outlet assets, the Company will refinance certain existing debt with a new credit facility of approximately \$60 million to be secured by 14 community centers. The term of the debt is for three years at a rate of 320 basis points over one month LIBOR.

The consummation of the transaction with Chelsea will include the assumption and/or paydown of approximately \$165 million in current indebtedness secured by the sold properties. Net proceeds from the sale of the outlets and the \$60 million financing is expected to be approximately \$15 million after all transaction costs and repayment of other debt.

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### Lazard Transaction

On August 5, 1998, stockholders approved the sale of common stock to Prometheus Southeast Retail, LLC ("PSR"), an affiliate of Lazard Freres & Co., LLC, for \$200 million. As part of the Lazard transaction, the Company signed a Contingent Value Rights Agreement with PSR. Under this agreement, if PSR has not essentially doubled its investment (through stock appreciation and dividends) by January 1, 2004, the Company will be required to pay PSR, in cash or stock at its discretion, an amount necessary to achieve such a return, subject to a maximum payment of 4,500,000 shares or the cash value thereof.

### Current and Future Cash Needs

The Company's management anticipates that cash generated from operations as well as planned property dispositions and access to capital resources, including additional borrowings and issuances of debt or equity securities, will provide the necessary funds for operating expenses, interest expense and repayment of principal on outstanding indebtedness, current and future severance payments, dividends and distributions in accordance with REIT federal income tax requirements, re-tenanting and lease renewal tenant improvement costs, capital expenditures to maintain the quality of its existing centers as well as development projects.

### Dividends

The Company's policy is to make a determination regarding its dividend distributions quarterly following review of the Company's financial results, capital availability, capital expenditure and improvement needs, strategic objectives and REIT requirements. The Company's policy is to declare dividends in amounts at least equal to 90% of the Company's taxable income, which is the minimum dividend required to maintain REIT status. Based upon previous losses, the Company will have approximately \$10.6 million of net operating loss carry forwards for income tax reporting purposes, which could result in no dividend payment requirement to maintain its REIT status in 2001. Due to the uncertainty and significant costs of the pending outlet sale and refinancing transactions, the Company determined not to make a dividend payment during the three months ended June 30, 2001. Pursuant to its policy stated above and with the consummation of the outlet and financing transactions, the Company will announce future dividend plans following the end of the third quarter of 2001.

### Economic Conditions

Inflation has remained relatively low during the past three years with certain segments of the economy experiencing disinflation, such as apparel

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sales. Disinflation in this market segment has slowed the growth of tenant sales, which adversely affects the Company's revenue due to lower percentage and overage rents on some properties. Any weakness in the overall retail environment as it relates to tenant sales volumes may have an impact on the Company's ability to renew leases at current rental rates or to re-lease space to other tenants. A decline in sales can effect renewal of tenant leases as well as the viability of the tenant, which could result in reduced revenue. Percentage and overage rent are directly impacted by sales volumes and represented 2% and 4% of the Company's total revenue for the six months ended June 30, 2001 and 2000, respectively. Continuation of this economic trend may affect the Company's operating centers' occupancy rate, rental rates, and concessions, if any, granted on new leases or re-releases of space. This in turn may cause fluctuations in the cash flow from the operation and performance of the operating centers.

### Disclosure Regarding Forward-Looking Statements

Some of the information in this Quarterly Report on Form 10-Q may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations." You can identify forward-looking statements by our use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue," or other similar words. Although we believe that our plans, projections and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that our plans, projections or expectations will be achieved. When considering such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- . The sale of the outlet portfolio under the terms of the Outlet Portfolio Sale Agreement may not close or may close on different terms than agreed upon;

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- . our markets could experience significant increases in development of retail properties;
- . the financial condition of our tenants could deteriorate;
- . the costs of our development projects could exceed our original estimates;
- . we may not be able to complete development, acquisition or joint venture projects as quickly or on as favorable terms as anticipated;
- . we may not be able to lease or release space quickly or on as favorable terms as old leases;
- . we may have incorrectly assessed the environmental condition of our properties;
- . an increase in interest rates would increase our debt service costs;
- . we could lose key executive officers; and
- . our markets may suffer decline in economic growth or increase in unemployment rates.

Given these uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to disclose the results

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of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

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### Item 3 - Quantitative and Qualitative Disclosures about Market Risk

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes "forward-looking statements" and represents an estimate of possible changes in future earnings that would occur assuming hypothetical future movements in interest rates. These disclosures are not precise indicators of expected future results, but only indicators of reasonably possible results. As a result, actual future results may differ materially from those presented. See "Management's Discussion and Analysis of Results of Operations - Liquidity and Capital Resources," which provides information related to these financial instruments.

To meet in part long-term liquidity requirements, the Company borrows funds at a combination of fixed and variable rates. In addition, the Company has assumed fixed rate debt in connection with acquiring properties. The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. Currently, the Company is party to an interest rate agreement which limits the interest to a maximum of 10.66% on \$58.9 million of variable rate debt. As of June 30, 2001, the Company had approximately \$93.3 million of variable rate debt outstanding. If the weighted-average interest rate on this variable rate debt is 100 basis points higher or lower in 2001, our interest expense would be increased or decreased approximately \$0.2 million for the three months ended June 30, 2001. The Company has \$4.4 million of fixed rate debt maturing in 2001.

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## PART II

### 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

None

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

3. Amended and Restated Bylaws

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(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the three months ended June 30, 2001.

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Signatures

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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.

KONOVER PROPERTY TRUST, INC.

Date: August 14, 2001

By: /S/Daniel J. Kelly

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Daniel J. Kelly, Executive Vice President,  
Chief Financial Officer

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