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CENTERPOINT PROPERTIES TRUST  
Form 10-Q  
May 15, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

- (X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2001
- ( ) Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

-----  
Commission file number 1-12630

CENTERPOINT PROPERTIES TRUST  
(Exact name of registrant as specified in its charter)

Maryland	36-3910279
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1808 Swift Road, Oak Brook, Illinois 60523-1501  
(Address of principal executive offices)

(630) 586-8000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No

-----  
Number of Common Shares of Beneficial Interest outstanding as of May 14, 2001:  
20,557,598.  
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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

CENTERPOINT PROPERTIES TRUST AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT FOR SHARE INFORMATION)  
(UNAUDITED)

#### ASSETS

	MARCH 31, 2001
	-----
Assets:	
Investment in real estate:	
Land and leasehold	\$ 174,730
Buildings	772,001
Building improvements	111,438
Furniture, fixtures, and equipment	23,925
Construction in progress	98,337
	-----
	1,180,431
Less accumulated depreciation and amortization	(107,701)
Real estate held for sale, net of depreciation	918
	-----
Net investment in real estate	1,073,648
Cash and cash equivalents	1,204
Restricted cash and cash equivalents	17,468
Tenant accounts receivable, net	33,603
Mortgage notes receivable	9,061

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Investment in and advances to affiliates	11,055
Prepaid expenses and other assets	10,039
Deferred expenses, net	17,007
	-----
	<b>\$1,173,085</b>
	=====

### LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Mortgage notes payable and other debt	\$ 62,190
Senior unsecured debt	350,000
Tax-exempt debt	44,100
Line of credit	113,500
Preferred dividends payable	1,060
Accounts payable	8,008
Accrued expenses	44,620
Rents received in advance and security deposits	12,119
	-----
	635,597
	-----

Commitments and contingencies

Shareholders' equity:

Series A preferred shares of beneficial interest, \$.001 par value, 10,000,000 shares authorized; 3,000,000 issued and outstanding having a liquidation preference of \$25 per share (\$75,000)	3
Series B convertible preferred shares of beneficial interest, \$.001 par value; 1,000,000 issued and outstanding having a liquidation preference of \$50 per share (\$50,000)	1
Common shares of beneficial interest, \$.001 par value, 47,727,273 shares authorized; 22,543,495 and 22,283,930 issued and outstanding, respectively	22
Additional paid-in-capital	583,211
Retained earnings (deficit)	(37,042)
Unearned compensation - restricted shares	(8,707)
	-----
Total shareholders' equity	537,488
	-----
	<b>\$1,173,085</b>
	=====

The accompanying notes are an integral part of  
these consolidated financial statements.

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CENTERPOINT PROPERTIES TRUST AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT FOR SHARE INFORMATION)  
(UNAUDITED)

THREE MONTHS ENDED	
MARCH 31,	
-----	
2001	2000
-----	-----

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Revenue:		
Minimum rents	\$ 29,204	\$ 26,924
Straight-line rents	1,296	1,288
Expense reimbursements	9,721	8,528
Mortgage interest income	120	67
Real estate fee income	482	1,496
Equity in net income of affiliates	150	85
	-----	-----
Total revenue	40,973	38,388
	-----	-----
Expenses:		
Real estate taxes	8,335	8,226
Property operating and leasing	5,949	5,124
General and administrative	1,468	1,172
Depreciation and amortization	9,170	7,395
Interest expense:		
Interest incurred, net	7,788	6,986
Amortization of deferred financing costs	601	515
	-----	-----
Total expenses	33,311	29,418
	-----	-----
Operating income	7,662	8,970
Other income (expenses)		
Gain on sale of real estate	7,605	2,901
	-----	-----
Net Income before income taxes and extraordinary item	15,267	11,871
Provision for income taxes	380	-
	-----	-----
Net Income before extraordinary item	15,647	11,871
Extraordinary item, early extinguishment of debt	(1,616)	-
	-----	-----
Net income	14,031	11,871
Preferred dividends	(2,523)	(2,528)
	-----	-----
Net income available to common shareholders	\$ 11,508	\$ 9,343
	=====	=====
Per share income before extraordinary item available to common shareholders:		
Basic	\$ 0.59	\$ 0.45
Diluted	\$ 0.57	\$ 0.45
Per share net income available to common shareholders:		
Basic	\$ 0.51	\$ 0.45
Diluted	\$ 0.50	\$ 0.45
Distributions per common share	\$ 0.5250	\$ 0.5025

The accompanying notes are an integral part of these consolidated financial statements.

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CENTERPOINT PROPERTIES TRUST AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	THREE MA
	----- 2001 -----
Cash flows from operating activities:	
Net income	\$ 14,031
Adjustments to reconcile net income to net cash provided by operating activities:	
Extraordinary item, early extinguishments of debt	1,616
Bad debts	160
Depreciation	8,455
Amortization of deferred financing costs	601
Other amortization	715
Straight-line rents	(1,296)
Incentive stock awards	291
Equity in net (income) loss of affiliates	(150)
Gain on disposal of real estate	(7,605)
Net changes in:	
Tenant accounts receivable	(1,611)
Prepaid expenses and other assets	(504)
Rents received in advance and security deposits	4,599
Accounts payable and accrued expenses	(20,070)
	-----
Net cash provided by (used in) operating activities	(768)
	-----
Cash flows from investing activities:	
Change in restricted cash and cash equivalents	8,735
Acquisition of real estate	(19,503)
Additions to construction in progress	(18,089)
Improvements and additions to properties	(821)
Disposition of real estate	6,917
Change in deposits on acquisitions	140
Repayment of mortgage notes receivable	55
Acquisition of CRS, net of cash	151
Investment in and advances to affiliates	(2,072)
Receivables from affiliates and employees	43
Additions to deferred expenses	(428)
	-----
Net cash used in investing activities	(24,872)
	-----
Cash flows from financing activities:	
Proceeds from sale of common shares	3,084
Proceeds from issuance of unsecured notes payable	
Proceeds from line of credit	54,500
Repayment of mortgage notes payable	(163)
Repayment of line of credit	(17,333)
Distributions	(14,304)
	-----

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Net cash provided by financing activities	25,784
	-----
Net change in cash and cash equivalents	144
Cash and cash equivalents, beginning of period	1,060
	-----
Cash and cash equivalents, end of period	\$ 1,204
	=====

The accompanying notes are an integral part of these consolidated financial statements.

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### CENTERPOINT PROPERTIES TRUST AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### BASIS OF PRESENTATION:

These unaudited Consolidated Financial Statements of CenterPoint Properties Trust, a Maryland real estate investment trust, and subsidiaries (the "Company"), have been prepared pursuant to the Securities and Exchange Commission ("SEC") rules and regulations and should be read in conjunction with the December 31, 2000 Financial Statements and Notes thereto included in the Company's annual report on Form 10-K. The following Notes to Consolidated Financial Statements highlight significant changes from the Notes included in the December 31, 2000 Audited Financial Statements included in the Company's annual report on Form 10-K and present interim disclosures as required by the SEC. The accompanying Consolidated Financial Statements reflect, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the interim financial statements.

The consolidated statements of operations and statements of cash flows for prior periods have been reclassified to conform with current classifications with no effect on results of operations or cash flows.

#### 1. CONSOLIDATION OF CENTERPOINT REALTY SERVICES (CRS)

Effective January 1, 2001, the Company acquired 100% of the common stock of CRS at book value. In connection with the acquisition, the CRS preferred stock owned by the Company was cancelled. For the year ended December 31, 2001 and thereafter, the operations of CRS will be fully consolidated with the Company. During 2001, the Company has elected for CRS to be treated as a taxable REIT subsidiary, as permitted by the Tax Relief Extension Act of 1999.

#### 2. PREFERRED SHARES, COMMON SHARES OF BENEFICIAL INTEREST AND RELATED TRANSACTIONS

Under the terms of the Company's 2000 Omnibus Employee Retention and Incentive Plan (the Plan), adopted in 2000, employees were granted 147,400 restricted shares of the Company on February 21, 2001. Shares were awarded in the name of each of the participants, who have all rights of other common shareholders, subject to certain restrictions and forfeiture provisions. Restrictions on the shares expire no more than eight years after the date of award, or earlier if certain performance targets are met. Unearned compensation was recorded at the date of award based on the market value of the shares. The unearned compensation is being amortized over the eight-year vesting period unless the restriction is sooner lifted.

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Under the terms of the Plan, options for 250,000 common shares were issued on March 8, 2001. The options were granted at \$45.90 per shares and are exercisable per the plan.

### 3. ACQUISITION AND DISPOSITION OF REAL ESTATE

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In the first three months of 2001, the Company purchased five properties from unrelated third parties for an aggregate cost of approximately \$22.5 million. In addition, the Company disposed of two properties for an aggregate sales price of approximately \$22.3 million.

### 4. INVESTMENT IN AND ADVANCES TO AFFILIATES

As of January 1, 2001, the Company purchased all the remaining interest in CRS, which has made the election to be treated as a taxable REIT subsidiary.

Since its inception in 1995, CRS and its subsidiaries have engaged in businesses and services which compliment the Company's business, including the purchase and sale of warehouse/industrial real estate, the provision of services and commodities to tenants of the Company, the development of real property and the management of properties owned by third parties. Income from these activities, received by REITs and their qualified REIT subsidiaries, is limited under current REIT tax regulations.

Summarized financial information of CRS for 2000 is shown below. Certain items in the CRS financial statements have been reclassified to conform with 2001 presentation with no effect on net income.

Balance Sheet:

	DECEMBER 31, 2000
	----- (in thousands)
Assets:	
Land	\$10,560
Buildings	26,497
Construction in progress	22,665
Real estate held for sale	918
Less accumulated depreciation	(702)
	-----
	59,938
Other assets	2,705
Investment in CenterPoint Venture, LLC	8,832
Mortgage notes receivable	3,322
	-----
	\$74,797
	=====

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Liabilities:

Note payable to affiliate - CenterPoint Properties Trust	\$60,514
Construction line of credit	4,133
Participation interest due CenterPoint Properties Trust	43
Other liabilities	8,559
	73,249

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Stockholders' equity	1,548
	\$74,797
	=====

Statement of Operations:

THREE MONTHS  
ENDED MARCH 31,  
2000  
-----  
(in thousands)

Income:

Property sales	\$ 8,741
Rental income	1,852
Equity in net (loss) of CenterPoint Venture, LLC	(84)
Other income	280
	10,789

Operating expenses:

Cost of property sales	6,629
Participation interest	1,137
Other expenses	663
Depreciation and amortization	453
Interest	1,767
	10,649

Provision for income taxes	54
	-----

Net income	\$ 86
	=====

At March 31, 2001, CRS maintains a 25% investment in CenterPoint Venture, LLC (the Venture). The Venture was formed on January 21, 2000 with CalEast Industrial Investors LLC, an investment vehicle between the California Public Employees Retirement System (CalPERS) and Jones Lang LaSalle.



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CRS paid an additional \$1.8 million in syndication fees relating to the Venture and is amortizing this on a straight-line basis over the life of the Venture, 7 years. Amortization of syndication fees of \$59 is included in equity in net income (loss) of affiliates. Unamortized syndication fees of \$1,500 are included in investments in affiliates.

Summarized financial information for the CenterPoint Venture, LLC is shown below.

### Balance Sheet

	MARCH 31, 2001
-----	
<b>Assets</b>	
Net investment in real estate	\$ 108,649
Other assets	9,175
-----	
<b>Total assets</b>	<b>\$ 117,824</b>
=====	

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### Liabilities

Secured lines of credit	75,980
Other liabilities	5,606
-----	
<b>Total liabilities</b>	<b>81,586</b>
Members' equity	36,238
-----	
<b>Total liabilities and members' equity</b>	<b>\$ 117,824</b>
=====	

### Statement of Operations

	THREE MONTHS ENDED MARCH 31, 2001
-----	
<b>Operating expenses</b>	
Property, operating and leasing	998
Depreciation and amortization	672
Interest	1,149
-----	
<b>Total operating expenses</b>	<b>2,819</b>
<b>Operating income</b>	<b>242</b>

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Gain (loss) on disposal of assets	550	-----
Net income (loss)	\$ 792	=====

CenterPoint Venture, LLC owned 12 warehouse/industrial properties, totaling 2.6 million square feet (unaudited), as of March 31, 2001, which were 93% leased (unaudited). CenterPoint Venture, LLC also had two and one warehouse/industrial properties under construction as of March 31, 2001 and December 31, 2000.

### 5. SUPPLEMENTAL INFORMATION TO STATEMENTS OF CASH FLOWS (IN THOUSANDS)

Supplemental disclosures of cash flow information for the three months ended March 31, 2001 and 2000:

	2001	2000
	-----	-----
Interest paid, net of interest capitalized	\$ 10,561	\$ 8,896
Interest capitalized	1,622	498

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In conjunction with the acquisition of real estate, for the three months ended March 31, 2001 and 2000 the Company acquired the following asset and assumed the following liability amounts:

	2001	2000
	-----	-----
Purchase of real estate	\$ (22,454)	\$ (55,048)
Mortgage notes payable	2,241	5,049
Liabilities, net of other assets	710	1,554
Acquisition of real estate	\$ (19,503)	\$ (48,445)
	=====	=====

In conjunction with the disposition of real estate, the Company disposed of the following asset and liability amounts for the three months ended March 31, 2001 and 2000:

	2001	2000
	-----	-----
Disposal of real estate	\$ 22,257	\$ 5,777
Mortgage notes receivable	(23,200)	(7,200)
Liabilities, net of other assets	255	(53)

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Gain on sale of properties	7,605	2,901
	-----	-----
Disposition of real estate	\$ 6,917	\$ 1,425
	=====	=====

In conjunction with the acquisition of the remaining interest in CRS, the Company acquired the following assets and assumed the following liabilities on January 1, 2001.

Investment in real estate	\$ (60,639)
Accumulated Depreciation	702
Mortgage notes receivable	(3,322)
Investment in CenterPoint Venture, LLC	(8,832)
Line of credit	4,133
Mortgage debt	60,630
Investment in affiliate	1,533
Liabilities, net of other assets	5,946
	-----
Acquisition of CRS, net of cash	\$ 151
	=====

Certain items, including the investment in affiliate and mortgage debt are eliminated upon consolidation in the Company's financial statements.

6. MORTGAGE NOTES PAYABLE AND OTHER DEBT

On January 24, 2001, the Company's residential property, Lake Shore Dunes apartments, was sold and the \$21.3 million mortgage note payable that was secured by the property was assumed by the new owner.

7. INCOME TAXES

The components of income tax expense (benefit) for the period ended March 31, 2001 are as follows:

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THREE MONTHS ENDED  
MARCH 31, 2001

Current:	
Federal	\$ 42
State	10
Deferred:	
Federal	266
State	62
	-----
	\$ 380
	=====

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The actual tax expense differs from the statutory income tax expense for the period ended March 31, 2001 as follows:

THREE MONTHS ENDED MARCH 31, 2001 -----	
Tax benefit at federal rate	\$ 309
State tax benefit, net of federal benefit	71
	-----
	\$ 380
	=====

In 2001, CRS, the Company's taxable subsidiary, generated a net operating loss ("NOL") of \$132 for income tax purposes. This NOL is expected to be utilized in future periods.

### 8. COMMITMENTS AND CONTINGENCIES

In the normal course of business, from time to time, the Company is involved in legal actions relating to the ownership and operations of its properties. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a materially adverse effect on the consolidated financial position, results of operations and liquidity of the Company.

The Company has entered into other contracts for the acquisition and disposition of properties. Each acquisition transaction is subject to satisfactory completion of due diligence and, in the case of development projects, completion and occupancy of the projects.

At March 31, 2001, three of the properties owned by the Company were subject to purchase options held by certain tenants. The purchase options were exercisable at various intervals through 2006 for amounts that are greater than the net book value of the assets.

### 9. EARNINGS PER COMMON SHARE

The following are the reconciliations of the numerators and denominators of the basic and diluted earnings per share for the three months ended March 31, 2001 and 2000.

THREE MONTHS ENDED	MARCH 31,
-----	-----
2001	2000
-----	-----

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Income before extraordinary item	\$ 15,647	\$ 11,871
Dividends on preferred shares	(2,523)	(2,528)
	-----	-----
Income available to common shareholders before extraordinary items - for basic and diluted EPS	\$ 13,124	\$ 9,343
	=====	=====
Net income available to common shareholders - for basic and diluted EPS	\$ 11,508	\$ 9,343
	=====	=====
Denominators:		
Weighted average common shares outstanding - for basic EPS	22,393,915	20,685,376
Effect of share options	617,086	297,221
	-----	-----
Weighted average common shares outstanding - for diluted EPS	23,011,001	20,982,597
	=====	=====

The assumed conversion of the convertible preferred shares into common shares for purposes of computing diluted earnings per share by adding preferred distributions to the numerators, and adding the assumed share conversions to the denominators for the three months ended March 31, 2001 and 2000 would be anti-dilutive.

10. PRO FORMA FINANCIAL INFORMATION

Due to the effect of securities offering in November, 2000 and 2001 and 2000 acquisitions and dispositions of properties, the historical results are not indicative of the future results of operations. The following unaudited pro forma information for the three months ended March 31, 2001 and 2000 is presented as if the 2000 and 2001 acquisitions and dispositions, the 2000 securities offering, and the corresponding repayment of certain debt had all occurred on January 1, 2000 (or the date the property first commenced operations with a third party tenant, if later). The pro forma information is based upon historical information and does not purport to present what actual results would have been had the offerings and related transactions, in fact, occurred at January 1, 2000, or to project results for any future period.

	THREE MONTHS ENDED MARCH 31	
	2001	2000
	-----	-----
	(in thousands, except for share and per	
Total revenues	\$ 40,927	\$ 35
Total expenses	25,642	22
	-----	-----
Net income	15,285	13
Provision for income tax	380	
Preferred dividends	(2,523)	(2
	-----	-----
Income before extraordinary items available to common shareholders	\$ 13,142	\$ 10
	=====	=====

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Per share income before extraordinary item available to common shareholders:

Basic		\$	0.59	\$
Diluted		\$	0.57	\$
Weighted average common shares				
outstanding - basic	22,393,915			22,185
Weighted average common shares				
outstanding - diluted	23,011,001			22,482

### 11. RECENT PRONOUNCEMENTS

In June, 1998, the FASB issued SFAS Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, effective for financial statements for fiscal years beginning after June 15, 2000, provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. The Company has no derivative positions as of March 31, 2001

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition, which outlines basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the SEC. The Company adopted SAB 101 in the fourth quarter of 2000 with no impact on the Company.

In March 2000, the FASB issued Interpretation No. 44, or FIN 44, "Accounting for Certain Transactions Involving Stock Compensation," which is an interpretation of Accounting Principles Board Opinion No. 25. This interpretation clarifies:

- o the definition of employee for purposes of applying Opinion 25, which deals with stock compensation issues;
- o the criteria for determining whether a plan qualifies as a noncompensatory plan;
- o the accounting consequence of various modifications to the terms of a previously fixed stock option or award; and
- o the accounting for an exchange of stock compensation awards in a business combination.
- o this interpretation is effective July 1, 2000, but certain conclusions in this interpretation cover specific events that occur after either December 15, 1998, or January 12, 2000. To the extent that this interpretation covers events occurring during the period after December 15, 1998, or January 12, 2000, but before the effective date of July 1, 2000, the effects of applying this interpretation are recognized on a prospective basis from July 1, 2000. The adoption of FIN 44 had no impact on the Company.

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The Tax Relief Extension Act of 1999, or the REIT Modernization Act, which took effect on January 1, 2001, modifies certain provisions of the Internal Revenue Code of 1986, as amended, with respect to the taxation of REITs. Two key provisions of this tax law change will impact future Company operations: the availability of a taxable REIT subsidiary which may be wholly-owned directly by a REIT and a reduction in the required level of distribution by a REIT to 90% of ordinary taxable income. The Company acquired 100% of the common stock of CRS and canceled its preferred stock on January 1, 2001.

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

The following is a discussion of the historical operating results of the Company. The discussion should be read in conjunction with the Company's Form 10-K filed for the fiscal year ended December 31, 2000 and the unaudited financial statements presented with this Form 10-Q.

#### CONSOLIDATION OF CENTERPOINT REALTY SERVICES (CRS)

Effective January 1, 2001, the Company acquired 100% of the common stock of CRS at book value. In connection with the acquisition, the CRS preferred stock owned by the Company was cancelled. For the year ended December 31, 2001 and thereafter, the operations of CRS will be fully consolidated with the Company. In January 2001, the Company elected for CRS to be treated as a taxable REIT subsidiary, as permitted by the Tax Relief Extension Act of 1999.

#### RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED MARCH 31, 2001 TO THREE MONTHS ENDED MARCH 31, 2000.

#### REVENUES

Total revenues increased by \$2.6 million or 6.7% over the same period last year.

In the first quarter of 2001, 98.5% of total revenues of the Company were derived primarily from base rents, straight-line rents, expense reimbursements and mortgage income (operating and investment revenue), pursuant to the terms of tenant leases and mortgages held for space at the warehouse/industrial properties.

Operating and investment revenues, which includes minimum rents, straight-line rents, expense reimbursements and mortgage interest income, increased by \$3.5 million in the first quarter of 2001. A portion of the increase from the prior year is due to income from five acquired properties in the first three months of 2001, totaling 0.8 million square feet, net of two Company-owned property dispositions as of March 31, 2001. The remainder of the increase was attributable to a full period of income from the 2000 acquisitions and completion of development of 22 properties, totaling 4.0 million square feet, net of 37 property dispositions.

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Other revenues, consisting of real estate fee income and equity in net income of affiliates, decreased \$0.9 million partly due to the consolidation of CRS.

### OPERATING AND NONOPERATING EXPENSES

Real estate tax expense and property operating and leasing expense increased by \$0.9 million from period to period. The majority of the increase, \$0.8 million, resulted from increased common area snow removal and utilities on properties, due to large snow falls and increased utility costs. Also, a portion of the increase was due to full consolidation of CRS costs. When

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comparing the first quarter of 2001 to the first quarter of 2000, property operating and leasing costs as a percentage of total revenues increased from 13.3% to 14.5% due to increases described above and the growth of the Company's operating team and operating activity on 2001 and 2000 acquisitions and developments.

General and administrative expenses increased when comparing periods. As a percentage of total revenues, general and administrative expenses increased from 3.1% to 3.6% when comparing the first quarter of 2000 to the first quarter of 2001 due mainly to the full consolidation of CRS costs.

Depreciation and amortization increased by \$1.8 million due to a full period of depreciation on 2000 acquisitions and partial period depreciation on 2001 acquisitions.

Interest incurred increased by approximately \$0.8 million over the same period last year due to higher average balances outstanding in the first quarter of 2001 compared to 2000.

Gains on the sale of real estate increased in the first quarter of 2001 due to the sale of two properties at a higher margin than the two sold in the first quarter of 2000. Also, the Company recognized \$3.9 million of gain upon the elimination of remaining risks relating to a property sale in 2000.

### NET INCOME AVAILABLE TO COMMON SHAREHOLDERS AND OTHER MEASURES OF OPERATIONS

Net income available to common shareholders increased \$2.2 million or 23.2% due to an increase in gains that resulted from capital recycling activities.

Funds from operations (FFO) increased 21.5% from \$17.2 million to \$20.9 million when comparing the first quarter of 2000 to the first quarter of 2001. The National Association of Real Estate Investment Trusts ("NAREIT") defines funds from operations as net income before extraordinary items plus depreciation and non-financing amortization, less gains (losses) on the sale of real estate. CenterPoint calculates FFO as net income to common shareholders, plus real estate depreciation and non-financing amortization, inclusive of results from merchant activities of the Company and its unconsolidated joint ventures, which includes fee income, and cash gains and losses on disposition of stabilized Company assets (measured as the sale price, net of selling costs, less book value after adding back accumulated depreciation). The Company believes that FFO inclusive of cash gains better reflects recurring funds because the disposition of stabilized properties, and the recycling of capital and profits to new "value added" investments, is fundamental to the Company's business strategy. FFO does not represent cash flow from operations as defined by generally accepted



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accounting principles ("GAAP"), should not be considered by the reader as an alternative to net income as an indicator of the Company's operating performance or to cash flows as a measure of liquidity, and is not indicative of cash available to fund all cash flow needs.

When comparing the first quarter results of operations of properties owned at January 1, 2000 with the results of operations of the same properties for the first quarter 2001 (the "same store" portfolio), the Company recognized an increase of approximately 1.4% in net operating income

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adjusted for certain non-cash transactions. This same store increase was due to the timely lease up of vacant space, rental increases on renewed leases and contractual increases in minimum rent under leases in place.

The Company assesses its operating results, in part, by comparing the Net Revenue Margin between periods. Net Revenue Margin is calculated for the "in service" portfolio by dividing net revenue (total operating and investment revenue less real estate taxes and property operating and leasing expense) by adjusted operating and investment revenue (operating and investment revenue less expense reimbursements, adjusted for leases containing expense stops). This margin indicates the percentage of revenue actually retained by the Company or, alternatively, the amount of property related expenses not recovered by tenant reimbursements. The margin for the first quarter of 2001 was 87.4% compared with 86.1% for the same period last year, increasing due mainly to transitional vacancy in the prior year.

### LIQUIDITY AND CAPITAL RESOURCES

#### OPERATING AND INVESTMENT CASH FLOW

Cash flow generated from Company operations has historically been utilized for working capital purposes and distributions, while proceeds from stabilized asset dispositions, supplemented by unsecured financings and periodic capital raises, have been used to fund, on a long term basis, acquisitions and other capital costs. In the first three months of 2001, cash flow from operations provided negative cash flow, which was largely caused by the (\$20.1 million) net change in accounts payable and accrued expenses. This large change was caused by the payment of interest expense accrued at year end on senior debt issuances, year 2000 bonus payments in early 2001, and a cash overdraft at the end of 2000, which was classified as accounts payable at December 31, 2000. Although these unusual items did not provide enough working capital to fund first quarter 2001 distributions, the Company's ongoing cash flow should be sufficient to fund all distributions and a portion of future investment activities.

For the first three months of 2001, the Company's investment activities include acquisitions of \$19.5 million, advances for construction in progress of \$18.1 million, and improvements and additions to properties of \$0.8 million. These activities were funded with dispositions of real estate of \$6.9 million, advances on the company's line of credit and a portion of the Company's retained capital. Advances on the Company's line of credit also funded advances to affiliate of \$2.1 million for acquisitions and construction in progress at the subsidiary level.

#### EQUITY AND SHARE ACTIVITY

During the first three months of 2001, the Company paid distributions on common shares of \$11.8 million or \$0.5250 per share. Also, in 2001, the Company paid

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dividends on Series A Preferred Shares of \$1.6 million or \$0.53 per share and \$0.9 million for dividends on Series B Convertible Preferred Shares or \$0.9375 per share. The following factors, among others, will affect the future availability of funds for distribution: (i) scheduled increases in base rents under existing leases, (ii) changes in minimum base rents attributable to replacement of existing leases with new or replacement leases and (iii) restrictions under certain covenants of the Company's unsecured line of credit.

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### DEBT CAPACITY

The Company has a \$350 million unsecured credit facility led by Bank One. As of May 11, 2001, the Company had outstanding borrowings of approximately \$144.5 million under the Company's unsecured line of credit (approximately 8.2% of the Company's fully diluted total market capitalization), and the Company had remaining availability of approximately \$205.5 million under its unsecured line of credit. The Company also has available a \$50 million secured credit facility, led by LaSalle national Bank with \$0 outstanding as of May 11, 2001

At March 31, 2001, the Company's debt constituted approximately 32.6% of its fully diluted total market capitalization. Also, the Company's debt service coverage ratio remained high at 4.2 to 1, and the Company's fixed charge coverage ratio was 3.2 to 1 due to preferred dividends. The Company's fully diluted common equity market capitalization was approximately \$1.1 billion, and its fully diluted total market capitalization was approximately \$1.7 billion.

Standard and Poors, Duff & Phelps Credit Rating Co. and Moody's Investors Service's have assigned investment grade ratings to the Company's senior unsecured debt and preferred stock issuable under the Company's shelf registration statement.

The Company has considered its short-term (one year or less) capital needs, in conjunction with its estimated future cash flow from operations and other expected sources. The Company believes that it is able to fund operating expenses, building improvements, debt service requirements and the minimum distribution required to maintain the Company's REIT qualification under the Internal Revenue Code.

Long-term (greater than one year) capital needs for property acquisitions, scheduled debt maturities, major redevelopment projects, expansions, and construction of build-to-suit properties will be supported, initially, by draws on the Company's unsecured line of credit, followed by the issuance of long-term unsecured indebtedness and the issuance of equity securities. Management expects that a significant portion of the Company's investment funds will be supplied by the proceeds of property and investment dispositions.

### RECENT PRONOUNCEMENTS

In June 1998, the FASB issued SFAS Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, effective for financial statements for fiscal years beginning after June 15, 2000, provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. The Company has no derivative positions as of March 31, 2001.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition, which outlines basic criteria that must be met to recognize revenue and provides guidance for presentation of revenue and for disclosure

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related to revenue recognition policies in financial statements filed with the SEC. The Company adopted SAB 101 in the fourth quarter of 2000 with no impact on the Company.

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In March 2000, the FASB issued Interpretation No. 44, or FIN 44, "Accounting for Certain Transactions Involving Stock Compensation," which is an interpretation of Accounting Principles Board Opinion No. 25. This interpretation clarifies:

- o the definition of employee for purposes of applying Opinion 25, which deals with stock compensation issues;
- o the criteria for determining whether a plan qualifies as a noncompensatory plan;
- o the accounting consequence of various modifications to the terms of a previously fixed stock option or award; and
- o the accounting for an exchange of stock compensation awards in a business combination.
- o this interpretation is effective July 1, 2000, but certain conclusions in this interpretation cover specific events that occur after either December 15, 1998, or January 12, 2000. To the extent that this interpretation covers events occurring during the period after December 15, 1998, or January 12, 2000, but before the effective date of July 1, 2000, the effects of applying this interpretation are recognized on a prospective basis from July 1, 2000. The adoption of FIN 44 had no impact on the Company.

The Tax Relief Extension Act of 1999, or the REIT Modernization Act, which took effect on January 1, 2001, modifies certain provisions of the Internal Revenue Code of 1986, as amended, with respect to the taxation of REITs. Two key provisions of this tax law change will impact future Company operations: the availability of a taxable REIT subsidiary which may be wholly-owned directly by a REIT and a reduction in the required level of distribution by a REIT to 90% of ordinary taxable income. The Company acquired 100% of the common stock of CRS and canceled its preferred stock on January 1, 2001.

### FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth in the forward looking statements as a result of various factors, including, but not limited to, uncertainties affecting real estate businesses generally (such as entry into new leases, renewals of leases and dependence on tenants' business operations), risks relating to acquisition, construction and development activities, possible environmental liabilities, risks relating to leverage, debt service and obligations with respect to the payment of dividends (including availability of financing terms acceptable to the Company and sensitivity of the Company's operations to fluctuations in interest rates), the potential for the need to use borrowings to make distributions necessary for the Company to qualify as a REIT, dependence on the primary market in which the Company's properties are located, the existence of complex regulations relating to the Company's status as a REIT and the potential adverse impact of the market interest rates on the cost of borrowings by the Company and on the market price for the Company's securities.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The Company assesses its risk in relation to market conditions, and a discussion about the Company's exposure to possible changes in market conditions follows. This discussion involves the effect on earnings, cash flows and the value of the Company's financial instruments as a result of possible future market condition changes. The discussions below include "forward looking statements" regarding market risk, but management is not forecasting the occurrence of these market changes. The actual earnings and cash flows of the Company may differ materially these projections discussed below.

At March 31, 2001, \$157.6 million or 27.7% of the Company's debt was variable rate debt and \$412.2 million or 72.3% of the debt was fixed rate debt. Based on the amount of variable debt outstanding as of March 31, 2001, a 10% increase or decrease in the Company's interest rate on the Company's variable rate debt would decrease or increase, respectively, future earnings and cash flows by approximately \$0.8 million per year. A similar change in interest rates on the Company's fixed rate debt would not increase or decrease the future earnings of the Company during the term of the debt, but would effect the fair value of the debt. An increase in interest rates would decrease the fair value of the Company's fixed rate debt.

The Company is subject to other non-quantifiable market risks due to the nature of its business. The business of owning and investing in real estate is highly competitive. Sever factors may adversely affect the economic performance and value or our properties and the Company. These factors include:

- o Adverse changes in general or local economic conditions affecting real estate values, rental rates, interest rates, real estate tax rates and other operating expenses.
- o Competitive overbuilding.
- o Our inability to keep high levels of occupancy in our properties.
- o Tenant defaults.
- o Unfavorable changes in governmental rules and fiscal policies (including rent control legislation).
- o Our ability to sell properties.
- o Acts of God and other factors that are beyond our control.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits

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Exhibit Number -----	Description -----
10.1	Stock Grant Agreement between the Company and John S. Gates, Jr.
10.2	Stock Grant Agreement between the Company and Michael M. Mullen.
10.3	Stock Grant Agreement between the Company and Paul S. Fisher.
10.4	Stock Grant Agreement between the Company and Paul T. Ahern.
10.5	Stock Grant Agreement between the Company and Rockford O. Kottka.
10.6	Stock Option Agreement between the Company and John S. Gates, Jr.
10.7	Stock Option Agreement between the Company and Michael M. Mullen.
10.8	Stock Option Agreement between the Company and Paul S. Fisher.
10.9	Stock Option Agreement between the Company and Rockford O. Kottka.
(b)	Reports on Form 8-K
	None.

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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.

CENTERPOINT PROPERTIES TRUST  
a Maryland Company

By: /s/ PAUL S. FISHER

-----  
Paul S. Fisher  
Executive Vice President and  
Chief Financial Officer  
(Principal Accounting Officer)

May 14, 2001

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