

CRT PROPERTIES INC
Form 8-K
December 14, 2004

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UNITED STATES

SECURITIES and EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): **December 13, 2004**

CRT PROPERTIES, INC.

(Exact name of registrant as specified in its charter)
FLORIDA

(State or other jurisdiction of incorporation)

1-9997

59-2898045

(Commission File Number)

(IRS Employer Identification No.)

**225 NE Mizner Boulevard, Suite 200
Boca Raton, Florida**

33432

(Address of principal executive offices)

(Zip Code)

(561) 395-9666

(Registrant's telephone number, including area code)

N/A

(Former name or former address, if changed since last report)

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SIGNATURES

Consent of Deloitte & Touche LLP

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The Company is filing this report on Form 8-K to disclose audited and pro forma financial statements with respect to its August 16, 2004, acquisition of the Westchase Corporate Center (the Property) located in Houston, Texas, in accordance with Rule 3-14 of Regulation S-X promulgated by the Securities and Exchange Commission. While the acquisition of Westchase does not meet the criteria of an individually significant acquisition, when the acquisition is aggregated with other individually insignificant acquisitions consummated by the Company since the date of its most recently audited balance sheet as of December 31, 2003, all such acquisitions in the aggregate are significant within the meaning of Rule 3-14. Accordingly, the Company is required, under Rule 3-05 of Regulation S-X, to provide financial statements covering at least the substantial majority of all such acquired properties. The financial statements covering Westchase, filed herewith, allow the Company to satisfy such requirement.

Item 8.01 Other Events

On August 16, 2004, the Company acquired the Westchase Corporate Center, a six-story, 184,000 square foot, class A office building, located in Houston, Texas, for a purchase price of \$20.3 million, plus closing and other costs. The Company financed the acquisition of the Property with the proceeds of a non-recourse first mortgage totaling approximately \$15.2 million, a \$3.9 million draw on the Company s existing line of credit, and a minority interest contribution of \$1.2 million. The Property was acquired from Westchase Development Venture, L.P., an unrelated third party.

The Company considered various factors in determining the price to be paid for the Property. Factors considered included the nature of the tenants and terms of leases in place, opportunities for alternative and new tenancies, historical and expected cash flows, occupancy rates, current operating costs on the Property and anticipated changes therein under Company ownership, the physical condition and location of the Property, the need for capital improvements, the anticipated effect on the Company s financial results, and other factors. The Company took into consideration capitalization rates at which it believed other comparable properties had recently sold. However, the Company determined the price it was willing to pay primarily on the factors discussed above relating to the Property itself and its fit into the Company s existing operations. No separate independent appraisal was obtained by the Company in connection with this acquisition.

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Item 9.01 Financial Statements and Exhibits

The following financial statements and pro forma financial information are filed as part of this report.

(a) Financial Statements of Real Estate Acquired.

Statement of Revenues and Certain Expenses of the Westchase Corporate Center for the year ended December 31, 2003.

(b) Pro Forma Financial Statements

The unaudited pro forma consolidated financial statements set forth (i) the pro forma consolidated statement of operations for the year ended December 31, 2003, as if the acquisition had occurred on January 1, 2003, (ii) the pro forma consolidated statement of operations for the period ended September 30, 2004, as if the acquisition had occurred on January 1, 2004, and (iii) a pro forma statement of estimated taxable operating results and estimated cash to be made available by operations of the Company for the year ended December 31, 2003, as if the acquisition occurred on January 1, 2003. The pro forma financial statements are based upon assumptions contained in the notes thereto and should be read in conjunction with such notes.

The unaudited pro forma consolidated financial statements may not necessarily reflect the results of operations or financial position of the Company which would have actually resulted had the acquisition occurred as of the date and for the periods indicated, nor should they be taken as indicative of the future results of operations or the future financial position of the Company. Differences would result from various factors, including but not limited to changes in occupancy, rental rates and rental expenses.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
CRT Properties, Inc.
Boca Raton, Florida:

We have audited the accompanying statement of revenues and certain expenses of the property known as the Westchase Corporate Center (the Property) for the year ended December 31, 2003. On August 16, 2004, the Property was acquired from Westchase Development Venture, L.P., Inc., an unrelated third party. This financial statement is the responsibility of the Property. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenues and certain expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in the filing of a Form 8-K of CRT Properties, Inc. dated December 13, 2004, as a result of the acquisition of the Property. Material amounts, described in Note 1 to the statement of revenues and certain expenses that would not be comparable to those resulting from future operations of the Property are excluded and, accordingly, the statement is not intended to be a complete presentation of the Property s revenues and expenses.

In our opinion, in accordance with standards of the Public Company Accounting Oversight Board (United States), the financial statements referred to above present fairly, in all material respects, the revenues and certain expenses of the Property for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Certified Public Accountants

West Palm Beach, Florida
December 13, 2004

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**WESTCHASE CORPORATE CENTER
STATEMENT OF REVENUES AND CERTAIN EXPENSES
YEAR ENDED DECEMBER 31, 2003**

REVENUES:

| | |
|----------------------------|-------------|
| Base rental income | \$3,646,105 |
| Operating expense recovery | 145,630 |
| Parking and other income | 371,195 |
| | <hr/> |

| | |
|----------------|-----------|
| Total revenues | 4,162,930 |
| | <hr/> |

CERTAIN EXPENSES:

| | |
|-----------------------------|---------|
| Property operating | 598,282 |
| Real estate and other taxes | 599,099 |
| Management costs and fees | 337,835 |
| | <hr/> |

| | |
|------------------------|-----------|
| Total certain expenses | 1,535,216 |
| | <hr/> |

| | |
|---|--|
| REVENUES IN EXCESS OF CERTAIN EXPENSES | \$2,627,714 |
| | <hr style="border-top: 3px solid black;"/> |

See notes to statement of revenues and certain expenses.

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**WESTCHASE CORPORATE CENTER
NOTES TO STATEMENT OF REVENUES AND CERTAIN EXPENSES
YEAR ENDED DECEMBER 31, 2003**

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Westchase Corporate Center (the Property) is a six-story 184,000 square foot, class A office building located in Houston, Texas. The Property was acquired on August 16, 2004, from Westchase Development Venture, L.P., an unrelated third party. The statement of revenues and certain expenses includes information related to the operations of the Property for the year ended December 31, 2003, as recorded by the Property's previous owners, subject to the adjustments described below.

The accompanying historical financial statement information is presented in conformity with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the financial statement is not representative of the actual operations for the year ended December 31, 2003, as certain expenses have been excluded, which may not be comparable to the expenses expected to be incurred in the future operations of the Property. Expenses excluded consist of interest, depreciation and amortization, and other costs not directly related to the future operations of the acquired Property.

Management's Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Rental Income Rental income is recognized on a straight-line basis over the terms of the related leases.

Property Operating Expenses Property operating expenses consist primarily of utilities, insurance, repairs and maintenance, security and safety, cleaning, and other administrative expenses.

Management Costs and Fees The Property is to be managed by Means-Knaus Partners, L.P., a related third party who has a nine percent ownership interest in the Property, for a management fee of approximately 3.0 percent of rental receipts plus \$416.67 per month and reimbursement of personnel and other costs related to management of the Property.

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**WESTCHASE CORPORATE CENTER
NOTES TO STATEMENT OF REVENUES AND CERTAIN EXPENSES
YEAR ENDED DECEMBER 31, 2003**

2. OPERATING LEASES

Operating revenue is principally obtained from business tenant rentals under operating leases. Future minimum base rental income under all tenant operating leases as of December 31, 2003, is as follows:

| Year ending December 31, | Amount |
|---------------------------------|---------------|
| 2004 | \$ 3,915,502 |
| 2005 | 3,043,916 |
| 2006 | 1,871,901 |
| 2007 | 974,741 |
| 2008 | 285,943 |
| Thereafter | 60,604 |
| | <hr/> |
| Total | \$ 10,152,607 |
| | <hr/> |

For the year ended December 31, 2003, Hewlett-Packard Company and Baker Hughes, Inc. contributed approximately 12.2 percent and 15.1 percent of the Property's base rental income, respectively.

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CRT PROPERTIES, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
For the year ended December 31, 2003
(in thousands except per Share Data)

| | Historical Consolidated 2003 | Pro Forma Adjustments | | Pro Forma Consolidated 2003 |
|---|---|----------------------------------|-----|--|
| | <u> </u> | <u> </u> | | <u> </u> |
| REVENUES | | | | |
| Rental and other rental services | \$ 146,076 | \$ 4,163 | (a) | \$ 150,239 |
| Management fees | 331 | | | 331 |
| Interest | 307 | | | 307 |
| | <u> </u> | <u> </u> | | <u> </u> |
| Total revenues | 146,714 | 4,163 | | 150,877 |
| | <u> </u> | <u> </u> | | <u> </u> |
| EXPENSES | | | | |
| Property operations | 57,381 | 1,535 | (a) | 58,916 |
| Depreciation and amortization | 32,687 | 493 | (b) | 33,180 |
| Mortgage and loan interest | 29,249 | 950 | (d) | 30,199 |
| General and administrative | 11,138 | | | 11,138 |
| Direct cost of management fees | 88 | | | 88 |
| Other | 147 | | | 147 |
| | <u> </u> | <u> </u> | | <u> </u> |
| Total expenses | 130,690 | 2,978 | | 133,668 |
| | <u> </u> | <u> </u> | | <u> </u> |
| INCOME (LOSS) BEFORE GAIN ON SALE OF ASSETS AND INCOME TAXES | | | | |
| | 16,024 | 1,185 | | 17,209 |
| Gain on sale of assets | 573 | | | 573 |
| | <u> </u> | <u> </u> | | <u> </u> |
| INCOME (LOSS) BEFORE INCOME TAXES | | | | |
| | 16,597 | 1,185 | | 17,782 |
| Income tax (benefit) provision | (94) | 40 | (c) | (54) |
| | <u> </u> | <u> </u> | | <u> </u> |
| NET INCOME (LOSS) | | | | |
| | 16,691 | 1,145 | | 17,836 |
| Dividends on preferred stock | (1,995) | | | (1,995) |
| | <u> </u> | <u> </u> | | <u> </u> |
| NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS | | | | |
| | \$ 14,696 | \$ 1,145 | | \$ 15,841 |
| | <u> </u> | <u> </u> | | <u> </u> |

EARNINGS PER COMMON SHARE:

| | | |
|-------|-------------------|-------------------|
| Basic | \$.69 | \$.74 |
| | <u> </u> | <u> </u> |

| | | |
|---------|-------------------|-------------------|
| Diluted | \$.69 | \$.74 |
| | <u> </u> | <u> </u> |

WEIGHTED AVERAGE COMMON SHARES:

| | | |
|-------|-------------------|-------------------|
| Basic | 21,337 | 21,337 |
| | <u> </u> | <u> </u> |

| | | |
|---------|-------------------|-------------------|
| Diluted | 21,448 | 21,448 |
| | <u> </u> | <u> </u> |

See accompanying notes to unaudited pro forma consolidated financial statements.

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CRT PROPERTIES, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
For the nine months ended September 30, 2004
(in thousands except per Share Data)

| | Historical | | | Pro Forma Consolidated 9/30/2004 |
|--|-----------------------------------|----------------------------------|-----|---|
| | Consolidated 9/30/2004 | Pro Forma Adjustments | | 9/30/2004 |
| | <u> </u> | <u> </u> | | <u> </u> |
| REVENUES | | | | |
| Rental and other rental services | \$121,373 | \$ 2,486 | (a) | \$ 123,859 |
| Management fees | 263 | | | 263 |
| Equity in earnings of unconsolidated entity | 306 | | | 306 |
| Interest | 315 | | | 315 |
| | <u> </u> | <u> </u> | | <u> </u> |
| Total revenues | 122,257 | 2,486 | | 124,743 |
| | <u> </u> | <u> </u> | | <u> </u> |
| EXPENSES | | | | |
| Property operations | 47,686 | 1,031 | (a) | 48,717 |
| Depreciation and amortization | 29,615 | 370 | (b) | 29,985 |
| Mortgage and loan interest | 22,981 | 712 | (d) | 23,693 |
| General and administrative | 10,157 | | | 10,157 |
| Direct cost of management fees | | | | |
| Other | 157 | | | 157 |
| | <u> </u> | <u> </u> | | <u> </u> |
| Total expenses | 110,596 | 2,113 | | 112,709 |
| | <u> </u> | <u> </u> | | <u> </u> |
| INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST | | | | |
| | 11,661 | 373 | | 12,034 |
| Income tax (benefit) provision | | 13 | (c) | 13 |
| | <u> </u> | <u> </u> | | <u> </u> |
| INCOME (LOSS) BEFORE MINORITY INTEREST | | | | |
| | 11,661 | 360 | | 12,021 |
| Minority Interest | 72 | | | 72 |
| | <u> </u> | <u> </u> | | <u> </u> |
| NET INCOME (LOSS) | | | | |
| Dividends on preferred stock | 11,589 | 360 | | 11,949 |
| | (4,764) | | | (4,764) |
| | <u> </u> | <u> </u> | | <u> </u> |
| NET INCOME (LOSS) AVAILABLE TO | \$ 6,825 | \$ 360 | | \$ 7,185 |

COMMON SHAREHOLDERS

EARNINGS PER COMMON SHARE:

| | | |
|---------|-------------------|-------------------|
| Basic | \$.26 | \$.27 |
| | <u> </u> | <u> </u> |
| Diluted | \$.25 | \$.27 |
| | <u> </u> | <u> </u> |

WEIGHTED AVERAGE COMMON SHARES:

| | | |
|---------|-------------------|-------------------|
| Basic | 26,590 | 26,590 |
| | <u> </u> | <u> </u> |
| Diluted | 26,919 | 26,919 |
| | <u> </u> | <u> </u> |

See accompanying notes to unaudited pro forma consolidated financial statements.

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**CRT PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

1. Basis of Presentation

On August 16, 2004, CRT Properties, Inc. and subsidiaries (the Company) acquired the Westchase Corporate Center (the Property) from Westchase Development Venture, L.P., an unrelated third party. The Property consists of a 184,000 square foot office building located in Houston, Texas. The statement of revenues and certain expenses includes information related to the operations of the Property for the year ended December 31, 2003, as recorded by the Property s previous owner, subject to the pro forma adjustments described below.

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CRT PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(continued)

2. Unaudited Pro Forma Consolidated Statement of Operations

The unaudited pro forma consolidated statement of operations for the year ended December 31, 2003, includes adjustments assuming that the acquisition of the Westchase Corporate Center occurred as of January 1, 2003, and is based on the historical statement of operations for the Company presented in its Annual Report on Form 10-K for the year ended December 31, 2003. The unaudited pro forma consolidated statement of operations for the nine months ended September 30, 2004, includes adjustments assuming that the acquisition of the Property occurred as of January 1, 2004, and is based on the historical statement of operations for the Company presented in its Quarterly Report on Form 10-Q for the period ended September 30, 2004. Significant pro forma adjustments in the unaudited pro forma consolidated statements of operations include the following:

- (a) Adjustment required for the historical rental revenues and operating expenses for the Property. Operating expenses include management costs and fees calculated using the historical management costs of the Property.
- (b) Adjustment required to reflect depreciation on the Property, based on the total allocated cost of the acquisition to depreciable assets. The Company uses the straight-line method for depreciation and amortization with an estimated useful life of 39 years for the Property. The Company is in the process of determining if any intangible assets were acquired, which may result in future adjustments to depreciation and amortization.
- (c) Adjustment required to reflect applicable federal income taxes on the Property's taxable income. The Property's taxable income has been reduced by ninety percent for the dividends required to be paid to the Company's shareholders to maintain its real estate investment trust status for federal income tax purposes.
- (d) Adjustment required to reflect interest expense related to a non-recourse mortgage loan amount in the amount of \$15.2 million (a 5.4 percent fixed rate mortgage) and a \$3.9 million draw on the Company's line of credit. The estimated average interest rate on the line of credit was 3.4 percent. If the weighted average interest rate on this variable rate debt were 100 basis points higher or lower, annual interest expense would be increased or decreased by approximately \$39,000.

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CRT PROPERTIES, INC. AND SUBSIDIARIES
UNAUDITED STATEMENT OF ESTIMATED TAXABLE OPERATING RESULTS
AND ESTIMATED CASH TO BE MADE AVAILABLE BY OPERATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003
(In Thousands)

| | |
|---|------------|
| Revenues | |
| Rental and other rental services | \$ 148,155 |
| Management fees | 331 |
| Interest | 307 |
| | <hr/> |
| Total revenues | 148,793 |
| | <hr/> |
| Expenses | |
| Property operations | 59,092 |
| Depreciation and amortization | 25,072 |
| Mortgage and loan interest | 30,199 |
| General and administrative | 11,277 |
| Direct cost of management fees | 88 |
| Other | 1,196 |
| | <hr/> |
| Total expenses | 126,924 |
| | <hr/> |
| Estimated Taxable Operating Income | 21,896 |
| Add Back: Depreciation and Amortization | 25,072 |
| | <hr/> |
| Estimated Cash To Be Made Available By Operations | \$ 46,941 |
| | <hr/> |

Note 1: This statement of estimated taxable operating results and estimated cash to be made available by operations is an estimate of operating results of the Company for the twelve month period ended December 31, 2003 assuming that the acquisition of the Property had occurred on the first day of the twelve month period. However, this statement does not purport to reflect actual taxable results for any period.

Note 2: Tax depreciation was determined based upon the actual tax depreciation for the Company's existing portfolio and based upon the assumption that the acquisition of the Property had occurred on the first day of the twelve month period.

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(c) Exhibits

EXHIBIT INDEX

The following designated exhibits are filed herewith:

| <u>Exhibit Number</u> | <u>Description of Exhibit</u> |
|----------------------------------|--------------------------------------|
| 23 | Consent of Deloitte and Touche LLP |

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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.

CRT PROPERTIES, INC.

Dated: December 13, 2004

By: /s/ Steven A. Abney
Steven A. Abney
Title: Vice President, Finance and
Chief Accounting Officer
(Principal Financial Officer)

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