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KRAMONT REALTY TRUST
Form 10-Q
August 13, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarter ended June 30, 2002

OR

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

For the transition period from _____ to _____

Commission File Number: 1-15923

KRAMONT REALTY TRUST

(Exact name of Registrant as specified in its charter)

Maryland

(State of Incorporation)

25-6703702

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

580 West Germantown Pike, Plymouth Meeting, PA

(Address of principal executive offices)

19462

(Zip Code)

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

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

Number of Common Shares of Beneficial Interest, par value \$.01 per share, as of August 10, 2002: 21,265,985

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS	(unaudited) June 30, 2002 ----
Real estate - income producing, net of accumulated depreciation	\$ 688,176
Properties held for sale	11,138
Mortgage notes receivable	34,537
Investments in unconsolidated affiliates	3,016
Cash and cash equivalents (includes \$1,684 and \$1,718 restricted)	23,470
Other assets	21,461

Total assets	\$ 781,798 =====
LIABILITIES AND BENEFICIARIES' EQUITY	
LIABILITIES:	
Mortgages and notes payable	\$ 502,162
Accounts payable and other liabilities	13,388
Distributions payable	9,082

Total liabilities	524,632 -----
Minority interests in Operating Partnerships	19,823 -----
BENEFICIARIES' EQUITY:	
Preferred shares of beneficial interest	30
Common shares of beneficial interest, \$0.01 par value; authorized 96,683,845 shares; outstanding, 21,237,095 and 18,872,295 at June 30, 2002 and December 31, 2001, respectively	212
Additional paid-in capital	209,571
Retained earnings	38,005
Accumulated other comprehensive loss	(1,371)
Treasury stock, A-1 increasing rate cumulative preferred shares of beneficial interest, 11,155 shares at June 30, 2002 and December 31, 2001, respectively, at cost	(6,070)
Treasury stock, Redeemable preferred shares of beneficial interest Series D, 146,800 shares at June 30, 2002 and December 31, 2001, respectively, at cost	(2,349)

	238,028
Unearned compensation on restricted shares of beneficial interest	(685)

Total beneficiaries' equity	237,343 -----
Total liabilities and beneficiaries' equity	\$ 781,798 =====

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		
	2002	2001	
	-----	-----	
Revenues:			
Rent	\$ 26,006	\$ 25,018	\$
Interest, principally from mortgage notes	1,214	1,309	
Other	--	--	
	-----	-----	
	27,220	26,327	
	-----	-----	
Expenses:			
Interest	9,262	9,538	
Operating	7,069	6,784	
Depreciation and amortization	4,294	3,840	
General and administrative	1,813	1,928	
	-----	-----	
	22,438	22,090	
	-----	-----	
	4,782	4,237	
Equity in income of unconsolidated affiliates	209	187	
Minority interests in income of			
Operating Partnerships	(246)	(166)	
	-----	-----	
Net income from continuing operations	4,745	4,258	
Results from discontinued operations:			
Income (loss) from operations of			
properties sold or held for sale	(217)	2,961	
Gain on sale of properties	--	1,618	
Minority interest in discontinued operations	17	(300)	
	-----	-----	
Net income (loss) from discontinued operations	(200)	4,279	
	-----	-----	
Net Income	4,545	8,537	
	-----	-----	
Preferred share distribution	1,793	1,882	
	-----	-----	
Net income to common shareholders	\$ 2,752	\$ 6,655	\$
	=====	=====	=====
Per common share:			
Net income from continuing operations,			
basic and diluted	\$.15	\$.12	\$
Net income from discontinued operations,			
basic and diluted	\$ (.01)	\$.23	\$
	=====	=====	=====
Total net income per share, basic and diluted	\$.14	\$.35	\$
	=====	=====	=====
Dividends declared	\$.325	\$.325	\$
	=====	=====	=====
Average common shares outstanding:			
Basic	20,063,610	18,766,793	19
	=====	=====	=====

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Diluted	20,081,672	18,772,286	19
	=====	=====	=====

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
(dollars in thousands)
(unaudited)

	Three months ended June 30,		Six months ended	
	2002	2001	2002	
	----	----	----	
Net income	\$4,545	\$8,537	\$9,143	\$
Change in fair value of cash flow hedges	(743)	93	(714)	
Reclassification adjustment for hedge losses (gains) included in net income	265	30	557	
	-----	-----	-----	
Comprehensive income	\$4,067	\$8,660	\$8,986	\$
	=====	=====	=====	

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

	Six Months Ended June 30,	
	2002	2001
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash provided by operating activities	\$ 22,435	\$ 10,114
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collections on mortgage notes receivable	803	1,000
Acquisitions, net of cash acquired	(8,392)	(1,000)
Capital improvements	(3,588)	(1,000)
Net proceeds from the sale of real estate	982	1,000
Change in restricted cash	34	1,000
Other	27	1,000
	-----	-----
Net cash provided by (used in) investing activities	(10,134)	(1,000)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	3,074	1,000
Repayments of borrowings	(11,124)	(1,000)
Deferred finance costs	(379)	(1,000)
Cash distributions paid on common shares	(12,273)	(1,000)
	-----	-----

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Cash distributions paid on preferred shares	(3,859)	(
Cash received from stock issuance	31,271	
Cash received from stock options exercised	635	
Repurchase of Preferred Stock	(6,071)	
Distributions to minority interests	(975)	
	-----	-----
Net cash provided by (used in) financing activities	299	(2
	-----	-----
Net increase (decrease) in unrestricted cash and cash equivalents	12,600	(
Unrestricted cash and cash equivalents at the beginning of the period	9,186	1
	-----	-----
Unrestricted cash and cash equivalents at the end of the period	\$ 21,786	\$
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 18,051	\$ 2
	=====	=====

See accompanying notes to consolidated financial statements.

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KRAMONT REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND BUSINESS

Kramont Realty Trust, a Maryland real estate investment trust ("Kramont"), is a self-administered, self-managed equity real estate investment trust ("REIT"), which is engaged in the ownership, acquisition, redevelopment, management and leasing of community and neighborhood shopping centers. Kramont does not directly own any assets other than its interest in Kramont Operating Partnership, L.P. ("Kramont OP") and conducts its business through Kramont OP and its affiliated entities, including Montgomery CV Realty, L.P. ("Montgomery OP", together with Kramont OP and their wholly-owned subsidiaries, hereinafter collectively referred to as the "OPs", which together with Kramont are hereinafter referred to as the "Company"). The OP's, directly or indirectly, own all of the Company's assets, including its interest in shopping centers. Accordingly, the Company conducts its operations through an Umbrella Partnership REIT ("UPREIT") structure. As of June 30, 2002, the Company owned 92.17% of Kramont OP and is its sole general partner. As of June 30, 2002, Kramont indirectly owned 99.87% of the limited partnership interest of Montgomery OP and owned 100% of its sole general partner. As of June 30, 2002, the OP's owned and operated 80 shopping centers and two office buildings, and managed 5 shopping centers for third parties, located in 16 states aggregating approximately 11.6 million square feet.

In the opinion of management, all adjustments considered necessary for a fair presentation have been included. For further information please refer to the audited financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

(2) CHANGES TO SIGNIFICANT POLICIES AND PROCEDURES

The company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective January 1, 2002. SFAS 144 resolves significant implementation issues related to SFAS No. 121, Accounting for the Impairment of Long - Lived Assets and for Long-Lived Assets to Be Disposed of. SFAS 144 supercedes SFAS 121, but it retains its fundamental provisions. SFAS 144 retains the requirement of SFAS 121 to recognize an impairment loss only if the carrying

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amount of a long-lived asset within the scope of SFAS 144 is not recoverable from its undiscounted cash flow and exceeds its fair value. SFAS 144 requires the presentation of individual shopping centers sold or held for sale, that meet specific criteria, at the lower of its carrying amount or fair value. The statement expands the use of discontinued operations (see Note 4). The provisions of SFAS 144 generally are applied prospectively and the adoption of SFAS 144 resulted in the reclassification of the statement of operations

(3) ACQUISITIONS

On April 26, 2002, the Company completed the acquisition of a 75,400 square foot shopping center in Killingly, Connecticut for a purchase price of \$8.4 million including transaction costs. The center is anchored by a 50,000 square foot supermarket and is unencumbered.

(4) DISCONTINUED OPERATIONS

The Company has determined that certain properties do not fit the Company's core-portfolio. As a result, these properties have been sold, are under contract of sale, or are held for sale. The Company sold three shopping centers during 2001. They include shopping centers located in Baltimore, Maryland sold on April 13, Brookhaven, Mississippi sold on August 30, and Frederick, Maryland sold on October 12. The properties held for sale at June 30, 2002 include a shopping center in Columbus, Mississippi, a shopping center in Hamden, Connecticut and three parcels of undeveloped land in Florida. There was no debt on the properties

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held for sale at June 30, 2002. The Company anticipates disposing of the assets held for sale prior to the end of 2003. The following schedule reconciles the revenues of these properties sold or held for sale to the net income (loss) from discontinued operations (in thousands):

	Three Months Ended June 30,	
	2002	2001
	-----	-----
Revenues - properties sold	\$ --	\$3,377
Revenues - properties held for sale	56	138
Expenses - properties sold	--	(345)
Expenses - properties held for sale	(273)	(209)
	-----	-----
Income (loss) from operations of properties sold or held for sale	(217)	2,961
Gain on sale of properties	--	1,618
Minority interest in discontinued operations	17	(300)
	-----	-----
Net income (loss) from discontinued operations	\$ (200)	\$4,279
	=====	=====

(5) REAL ESTATE

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

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	June 30, 2002 -----	December 31, 2001 -----
Income producing:		
Land	\$122,052	\$120,479
Shopping centers	601,333	591,265
Office buildings	5,067	5,014
	-----	-----
Total	728,452	716,758
Less accumulated depreciation	(40,276)	(32,150)
	-----	-----
Net real estate - income producing	\$688,176 =====	\$684,608 =====
Properties held for sale (at carrying amount):		
Land	\$ 1,231	\$ 1,331
Shopping centers	4,515	4,959
Undeveloped land	5,392	5,452
	-----	-----
Properties held for sale	\$ 11,138 =====	\$ 11,742 =====

(b) Real Estate with a net book value of \$644.3 million, at June 30, 2002, is pledged as collateral for borrowings (see Note 7).

(6) MORTGAGE NOTES RECEIVABLE

At June 30, 2002, the Company's mortgage notes receivable consisted of \$34.5 million collateralized by first mortgages on the recreation facilities at three Century Village adult condominium communities in southeast Florida (collectively, the "Recreation Notes"). The Recreation Notes provide for self-amortizing equal monthly principal and interest payments due through 2012, bear interest ranging from 8.84% to 13.5% per annum and contain certain prepayment prohibitions. The Recreation Notes are pledged as collateral for

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certain borrowings (see Note 7).

(7) BORROWINGS

Borrowings consist of (in thousands):

	June 30, 2002 ----	December 31, 2001 ----
Mortgage notes payable through June 2003, interest only fixed payments at an average rate of 7.96% per annum, collateralized by mortgages on twenty-seven shopping centers	\$181,700	\$181,700
Mortgage notes payable through August 2028, interest ranging from 6.08% to 9.38% per annum, collateralized by mortgages on twenty-five shopping centers	170,706	176,758
Mortgage notes payable through August 2003 under \$155 million credit facility,		

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interest at one month LIBOR (1.84% at June 30, 2002) plus a minimum of 2.45% to a maximum of 2.95%, collateralized by mortgages on thirteen shopping centers	66,103	66,103
Mortgage notes payable through October 2008 under a mortgage loan, interest fixed at 7.00% per annum, collateralized by mortgages on nine shopping centers	63,526	63,846
Collateralized Mortgage Obligations, net of unamortized discount of \$206,000 and \$245,000 based on a fixed effective interest rate of 8.84% per annum, collateralized by certain of the Recreation Notes (see Note 6), quarterly self-amortizing principal and interest payments required through March 2007	20,127	21,805
Totals	\$502,162 =====	\$510,212 =====

(8) BENEFICIARIES EQUITY

On April 3, 2002, the Company filed a Shelf Registration Statement on Form S-3 ("Shelf Registration") to register \$150,000,000 in common and preferred shares of beneficial interest, depository shares, warrants and debt securities. The Shelf Registration Statement became effective April 17, 2002.

On May 15, 2002, the Company purchased 11,155 Series A-1 Increasing Rate Cumulative Convertible Preferred Shares ("Series A-1 Preferred Shares"), for \$6.0 million plus costs, which shares constitute all of our outstanding Series A-1 Preferred Shares.

On May 16, 2002, under the Shelf Registration, the Company sold 2.3 million of its common shares of beneficial interest to Cohen & Steers Capital Management, Inc. ("Cohen & Steers"), on behalf of itself and as investment adviser to certain investment advisory clients. The Company used \$6.0 million for the purchase of Series A-1 Preferred Shares, \$8.4 million for the purchase of a shopping center in Killingly, Connecticut, and paid down debt in the amount of \$8.0 million. The Company intends to use the balance of the proceeds for acquisitions, debt reductions, and other corporate purposes.

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

RESULTS OF OPERATIONS

Three Months Ended June 30, 2002 and 2001

Net Income

For the quarter ended June 30, 2002, net income to holders of common shares of beneficial interest was \$2.8 million or \$.14 per common share compared to \$6.7 million or \$.35 per common share for the same period of 2001.

During the quarter ended June 30, 2002, rent revenue and operating expenses increased by \$988,000 and \$285,000, respectively (a net rental income increase of \$703,000). The rent revenue increase is primarily due to increased rentals in the existing portfolio in the amount of \$603,000 and the acquisition of two shopping centers on December 27, 2001 and April 26, 2002 in the amount of

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\$808,000 offset by tenant bankruptcies in the amount of \$423,000. Operating expenses increased during the second quarter of 2002 primarily due to the purchase of two shopping centers in the amount of and \$144,000.

Interest expense decreased by \$276,000 during the second quarter of 2002 primarily as a result of a decrease in rates on the Company's variable rate debt and the repayment of borrowings in the amounts of \$317,000 and \$204,000, respectively, offset by an increase in borrowings primarily due to the assumption of debt in the acquisition of a shopping center on December 27, 2001 in the amount of \$245,000.

Depreciation and amortization increased by \$454,000 due to additional expense incurred in the amount of \$318,000 as a result of capital expenditures and additional expense of \$136,000 as a result of the acquisition of two shopping centers on December 27, 2001 and April 26, 2002.

Interest income decreased by \$95,000 during the second quarter of 2002, primarily attributable to scheduled repayments of mortgage notes receivable (see Note 6) which are long term and require self-amortizing payments through 2012.

General and administrative expenses decreased by \$115,000 principally due to lower professional fees in the amount of \$55,000 and lower performance related bonuses paid in the amount of \$145,000, offset by higher salary expense for the three months ended June 30, 2002.

Net income (loss) from discontinued operations was (\$200,000) for the second quarter of 2002 compared to \$4,279,000 for the second quarter of 2001. The 2002 amount includes a net loss from the operations of the property sold and properties held for sale. The 2001 amount consisted of a gain from the sale of real estate in the amount of \$1.6 million and other income, primarily in the form of termination fees. The 2001 amount includes the net income from properties sold in 2001 and 2002, as well as the properties held for sale.

Six Months Ended June 30, 2002 and 2001

For the six months ended June 30, 2002, net income to common shareholders of beneficial interest was \$5.5 million or \$.28 per common share compared to \$9.9 million or \$.53 per common share for the same period of 2001.

During the six months ended June 30, 2002, rent revenue increased by \$853,000 and operating expenses decreased by \$347,000 (a net rental income increase of \$1.2 million). The rent revenue increase is primarily due to increased rentals in the existing portfolio in the amount of \$286,000 and the acquisition of two

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shopping centers on December 27, 2001 and April 26, 2002 in the amount of \$1.4 million, offset by tenant bankruptcies in the amount of \$823,000. Operating expenses decreased during the six months ended June 30, 2002 primarily due to less snow removal costs in 2002 in the amount of \$1.1 million, offset by the acquisition of two shopping centers in the amount of \$253,000.

Interest income decreased by \$265,000 during the first six months of 2002, primarily attributable to scheduled repayments of mortgage notes receivable (see Note 6), which are long term and require self-amortizing payments through 2012.

Interest expense decreased by \$673,000 during the first six months of 2002 primarily as a result of a decrease in rates on the Company's variable rate debt and the repayment of borrowings in the amounts of \$757,000 and \$404,000, respectively, offset by an increase in borrowings primarily due to the assumption of debt in the acquisition of a shopping center on December 27, 2001 in the amount of \$488,000.

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Depreciation and amortization increased by \$793,000 primarily due to additional expense of \$562,000 as a result of capital expenditures and the additional expense of \$231,000 as a result of the acquisition of two shopping centers on December 27, 2001 and April 26, 2002.

General and administrative expenses decreased by \$304,000 principally due to lower professional fees in the amount of \$65,000 and a decrease in performance related bonuses in the amount of \$250,000 paid for the six months ended June 30, 2002, offset by higher salary expense.

Funds From Operations

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

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

	Three Months Ended June 30,		Six Mon Jun
	2002	2001	2002
	----	----	----
Net income to common shareholders	\$2,752	\$ 6,655	\$ 5,466
Depreciation and amortization of real property (including unconsolidated affiliates) *	4,024	3,703	7,856
Gain on sale of real estate*	--	(1,512)	(196)
	-----	-----	-----
FFO	\$6,776	\$ 8,846	\$13,126
	=====	=====	=====

* Net of amounts attributable to minority interests.

The Company believes that FFO is an appropriate measure of operating performance because real estate depreciation and amortization charges are not meaningful in evaluating the operating results of the Company's properties and certain extraordinary items, such as the gain on the sale of real estate and deferred income tax benefit, would distort the comparative measurement of performance and may not be relevant to ongoing operations. However, FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and should not be considered as an alternative to either net income as a measure of the Company's operating performance or to cash flows from operating activities as an

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indicator of liquidity or cash available to fund all cash flow needs.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated Statements of Cash Flows

Net cash provided by operating activities, as reported in the Consolidated Statements of Cash Flows, amounted to \$22.4 million for the six months ended June 30, 2002 compared to \$16.0 million for the same period in 2001. The increase in cash flow is primarily due to an increase in accounts payable and

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other liabilities of \$2.1 million for the six months ended June 30, 2002 compared to a decrease in accounts payable and other liabilities of \$4.4 million for the same period in 2001.

Net cash used in investing activities for the six months ended June 30, 2002 was \$10.1 million compared to \$4.1 million provided by investing activities for the same period in 2001. The 2002 amounts reflect \$8.4 million used for the acquisition of real estate and \$3.6 million of capital improvements offset by net proceeds from the sale of real estate in the amount of \$982,000 and \$803,000 of collections on mortgage notes receivable. The 2001 amounts reflect \$5.5 million of capital improvements, as well as payments of \$321,000 towards accrued acquisition costs, offset by \$845,000 of collections on mortgage notes receivable and \$9.2 of net proceeds from the sale of real estate.

Net cash provided by financing activities increased to \$299,000 for the six months ended June 30, 2002 from net cash used in financing activities of \$23.0 million in the same period in 2001. The 2002 amounts consist of proceeds of \$31.3 million from the issuance of common shares of beneficial interest, \$635,000 from the issuance of common shares of beneficial interest due to options exercised, and \$3.1 million of proceeds from borrowings, offset by cash distributions of \$16.1 million to shareholders and \$975,000 to minority interests, \$11.1 million repayment of borrowings, and \$6.1 million for the repurchase of Series A-1 Increasing Rate Cumulative Convertible Preferred Shares. The 2001 amounts consist of cash distributions of \$15.9 million to shareholders and \$856,000 to minority interests, partially offset by \$3.3 million of proceeds from borrowings.

Borrowings

At June 30, 2002, the Company's contractual debt obligations are as follows:

Payments Due by Period (in millions)			
Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
\$6.0	\$340.1	\$31.5	\$124.6

At June 30, 2002, borrowings were \$502.2 million. Scheduled principal payments over the remainder of this year and the next four years are \$377.6 million with \$124.6 million due thereafter. Borrowings consist of \$417.9 million of fixed rate indebtedness, with a weighted average interest rate of 7.70% at June 30, 2002, and \$84.3 million of variable rate indebtedness with a weighted average interest rate of 4.99% at June 30, 2002. The borrowings are collateralized by a substantial portion of the Company's real estate and three Century Village adult condominium communities in southeast Florida (collectively, the "Recreation Notes"). The Company expects to refinance certain of these borrowings, at or prior to maturity, through new mortgage loans on real estate. The ability to do so, however, is dependent upon various factors, including the income level of the properties, interest rates and credit conditions within the commercial real estate market. Accordingly, there can be no assurance that such refinancing can be achieved.

Effective August 1, 2000, the Company entered into an Amended and Restated Loan and Credit Facility

Agreement (the "Amended Facility") with GMAC Commercial Mortgage ("GMAC")

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wherein GMAC increased an existing \$100 million facility to a \$155 million facility. The Amended Facility is a non-revolving line of credit with individual loan terms of three years if funds are advanced within the first twelve months, and two years if funds are advanced during the thirteenth to the eighteenth months. Effective February 1, 2002, no more funds may be advanced. Advances under the Amended Facility: (1) must be secured by assets based on specified aggregate loan to value and debt service coverage ratios, (2) bear interest at an annual rate of one month London Interbank Offering Rate ("LIBOR") plus a spread ranging from 245 to 295 basis points, based on loan to value ratios, and (3) may be drawn only during the first eighteen months of the credit facility. Additional provisions include a -1/2% commitment fee, a minimum net worth covenant of \$175.0 million, cross-default and cross-collateralization requirements with respect to debt and properties within the Amended Facility, and under certain conditions an exit fee. Advances under the Amended Facility may be used to fund acquisitions, expansions, renovations, financing and refinancing of real estate. As of June 30, 2002, the Company had \$66.1 million outstanding under the \$155 million Amended Facility. Interest rate caps in the notional amount of \$87.3 million were purchased upon closing of the Amended Facility. Pursuant to the Amended Facility, the Company is required to make monthly escrow payments for the payment of tenant improvements and repair reserves.

On March 28, 2002 the Company entered into a Mezzanine Loan Agreement ("Mezzanine Agreement") with GMAC for an amount not to exceed \$18.5 million in the form of a revolving credit facility. Under terms of the Mezzanine Agreement, the facility will be used for acquisitions, capital expenditures, and general corporate purposes. The Mezzanine Agreement calls for an interest rate of the greater of 7 percent, or one month LIBOR plus 375 basis points. The term of the line expires on August 1, 2003, which is the maturity date of the Company's \$155 million Amended Facility. At June 30, 2002 there was no outstanding balance on this credit facility.

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

In 1998, the Company obtained a \$65.9 million fixed rate mortgage from Salomon Brothers Realty Corp. This loan is secured by a first mortgage on nine properties acquired by the Company in September 1998. The mortgage loan bears a fixed interest rate of 7% per annum and requires monthly payments of interest and principal based on a 30-year amortization. The mortgage matures on October 1, 2008. The outstanding balance on the mortgage was approximately \$63.5 million as of June 30, 2002. Pursuant to the mortgage, the Company is required to make monthly escrow payments for the payment of tenant improvements and repair reserves.

In addition, the Company has twenty-seven mortgage loans, collateralized by twenty-five properties, outstanding as of June 30, 2002 which were primarily assumed in connection with various acquisitions of certain shopping centers. These mortgage loans have maturity dates ranging from 2002 through 2028. Twenty-one of the twenty-seven mortgage loans have fixed interest rates ranging from 6.08% to 9.38%. The outstanding principal balance on these mortgage loans at June 30, 2002 was approximately \$152.5 million. Three mortgage loans with an outstanding principal balance at June 30, 2002 of \$3.1 million have interest rates payable at a rate adjusted each year equal to the sum of Moody's A

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Corporate Bond Index Daily Rate plus 0.125% per annum, rounded up to the next highest 1/8 percentage rate. One mortgage loan with an outstanding principal balance at June 30, 2002 of \$3.2 million has an interest rate payable at a rate adjusted monthly to the sum of 30 day LIBOR plus 1.6%. One mortgage loan with an outstanding principal balance at

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June 30, 2002 of \$5.4 million has an interest rate payable at a rate adjusted semi-annually to the sum of 6 month LIBOR plus 1.85%. One mortgage loan with an outstanding principal balance at June 30, 2002 of \$6.5 million has an interest rate payable at a rate adjusted monthly to the sum of the bank's prime rate minus .25%.

The Company also has 20.1 million of borrowings consisting of Collateralized Mortgage Obligations, net of unamortized discount, with a fixed effective interest rate of 8.84% which are collateralized by the Recreation Notes and require self-amortizing principal and interest payments through March 2007.

The Company has a line of credit with Wachovia Bank in the amount of \$3.2 million. This line is secured by a shopping center and has an interest rate payable at a rate adjusted monthly to the sum of 30 day LIBOR plus 1.8%. The line of credit matures on August 1, 2003. At June 30, 2002 there was no outstanding balance.

The Company has a line of credit with Wilmington Trust of Pennsylvania in the amount of \$3.5 million secured by two shopping centers with an interest rate payable at a rate adjusted monthly to the sum of 30 day LIBOR plus 1.8%. The line of credit matures on June 30, 2003. At June 30, 2002 there was no outstanding balance.

Capital Resources

On April 3, 2002, the Company filed a Shelf Registration Statement on Form S-3 ("Shelf Registration") to register \$150,000,000 in common and preferred shares of beneficial interest, depository shares, warrants and debt securities. The Shelf Registration Statement became effective April 17, 2002.

On May 15, 2002, the Company purchased 11,155 Series A-1 Increasing Rate Cumulative Convertible Preferred Shares ("Series A-1 Preferred Shares"), for \$6.0 million plus costs, which shares constitute all of our outstanding Series A-1 Preferred Shares.

On May 16, 2002, under the Shelf Registration, the Company sold 2.3 million of its common shares of beneficial interest to Cohen & Steers Capital Management, Inc. ("Cohen & Steers"), on behalf of itself and as investment adviser to certain investment advisory clients. The Company used \$6.0 million for the purchase of Series A-1 Preferred Shares, \$8.4 million for the purchase of a shopping center in Killingly, Connecticut, and paid down debt in the amount of \$8.0 million. The Company intends to use the balance of the proceeds for acquisitions, debt reductions, and other corporate purposes.

The Company's operating funds are generated from rent revenue net of operating expense from income producing properties and, to a much lesser extent, interest income on the mortgage notes receivable. The Company believes that the operating funds will be sufficient in the foreseeable future to fund operating and administrative expenses, interest expense, recurring capital expenditures and distributions to shareholders in accordance with REIT requirements. Sources of capital for non-recurring capital expenditures and scheduled principal payments, including balloon payments, on outstanding borrowings are expected to be obtained from property refinancings, scheduled principal repayments on the mortgage notes receivable, sales of non-strategic real estate, the Company's

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lines of credit and/or potential debt or equity financings in the public or private markets.

INFLATION

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

Most of the tenant leases contain provisions designed to lessen the impact of inflation. These provisions

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include escalation clauses which generally increase rental rates annually based on cost of living indexes (or based on stated rental increases which are currently higher than recent cost of living increases), and percentage rentals based on tenant's gross sales, which generally increase as prices rise. Many of the leases are for terms of less than ten years which increases the Company's ability to replace those leases which are below market rates with new leases at higher base and/or percentage rentals. In addition, most of the leases require the tenants to pay their proportionate share of increases in operating expenses, including common area maintenance, real estate taxes and insurance.

However, in the event of significant inflation, the Company's operating results could be adversely affected if general and administrative expenses and interest expense increases at a rate higher than rent income or if the increase in inflation exceeds rent increases for certain tenant leases which provide for stated rent increases (rather than based on cost of living indexes).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary exposure to market risk is to changes in interest rates. The Company has both fixed and variable rate debt. The Company has \$502.2 million of debt outstanding as of June 30, 2002 of which \$418.0 million, or 83.23%, has been borrowed at fixed rates ranging from 6.08% to 9.38% with maturities through 2028. As these debt instruments mature, the Company typically refinances such debt at their existing market interest rates which may be more or less than interest rates on the maturing debt. Changes in interest rates have different impacts on the fixed and variable rate portions of the Company's debt portfolio. A change in interest rates impacts the net market value of the Company's fixed rate debt, but has no impact on interest incurred or cash flows on the Company's fixed rate debt. Interest rate changes on variable debt impacts the interest incurred and cash flows but does not impact the net market value of the debt instrument. Based on the variable rate debt of the Company as of June 30, 2002, a 100 basis point increase in interest rates would result in an additional \$840,000 in interest incurred per year and a 100 basis point decline would lower interest incurred by \$840,000. To ameliorate the risks of interest rate increases, the Company has entered into interest rate swap and cap agreements in the notional amounts of \$32.5 million and \$87.3 million, respectively.

FORWARD LOOKING INFORMATION: CERTAIN CAUTIONARY STATEMENTS

Certain statements contained in "Management's Discussion and Analysis of Results of Operations and Financial Condition" and elsewhere in this Form 10-Q, that are not related to historical results, are forward looking statements, such as anticipated liquidity and capital resources, completion of potential acquisitions and collectibility of mortgage notes receivable. The matters referred to in forward looking statements are based on assumptions and expectations of future events which may not prove to be accurate and which could be affected by the risks and uncertainties involved in the Company's business; many of which cannot be predicted with accuracy and some of which might not even

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be anticipated. Prospective investors are cautioned that any such statements are not guarantees of future performance and that actual results may differ materially from those projected and implied in the forward-looking statements. These risks and uncertainties include, but are not limited to, the burden of the Company's substantial debt obligations; the risk that the Company may not be able to refinance its debt obligations on reasonable terms, if at all; the highly competitive nature of the real estate leasing market; adverse changes in the real estate leasing markets, including, among other things, competition with other companies; general economic and business conditions, which will, among other things, affect demand for retail space or retail goods, availability and creditworthiness of prospective tenants and lease rents; financial condition and bankruptcy of tenants, including disaffirmance of leases by bankrupt tenants; the availability and terms of debt and equity financing; risks of real estate acquisition, expansion and renovation; construction and lease-up delays; the level and volatility of interest rates; governmental actions and initiatives; environmental/safety requirements, as well as certain other risks described in this Form 10-Q. Subsequent written and oral forward looking statements

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attributable to the Company or persons acting on the Company's behalf are expressly qualified in their entirety by cautionary statements in this paragraph and elsewhere described in this Form 10-Q and in other reports the Company filed with the Securities and Exchange Commission.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 2. Changes in Securities and Use of Proceeds

None.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Submission of Matters to a Vote of Security Holders

An annual meeting of the shareholders of the Company was held on June 11, 2002. Proxies for the meeting were solicited by the Company pursuant to Regulation 14 under the Securities Exchange Act of 1934. In connection with Proposal 1 regarding the election of trustees, there was no solicitation in opposition to the management's nominees as listed in the proxy statement and all of such nominees were elected. There were no broker non-votes in connection with such proposal.

Votes of 16,764,814 common shares of beneficial interest (including the number of Series B-1 preferred shares equal to the number of common shares into which the Series B preferred shares were convertible) were cast for the election of Louis P. Meshon, Sr. as a Trustee; votes of 169,309 common shares were withheld. In addition, there were no broker non-votes in connection with such proposal.

Votes of 16,798,614 common shares of beneficial interest (including the number of Series B-1 preferred shares equal to the number of common shares into which the Series B preferred shares were convertible) were cast for the election of Milton

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S. Schneider as a Trustee; votes of 135,509 common shares were withheld. In addition, there were no broker non-votes in connection with such proposal. Votes of 16,798,283 common shares of beneficial interest (including the number of Series B-1 preferred shares equal to the number of common shares into which the Series B preferred shares were convertible) were cast for the election of Alan L. Shulman as a Trustee; votes of 135,840 common shares were withheld. In addition, there were no broker non-votes in connection with such proposal.

In connection with Proposal 2, there was no solicitation in opposition of the ratification of the appointment of BDO Seidman, LLP as the Company's independent public accounts as set forth in the proxy statement and such appointment was ratified.

Votes of 16,785,544 common shares of beneficial interest (including the number of Series B-1 preferred shares equal to the number of common shares into which the Series B

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preferred shares were convertible) were cast for the ratification of the appointment of BDO Seidman, LLP as the Company's independent public accountants; votes of 88,579 common shares were against; votes of 60,000 common shares abstained. In addition, there were no broker non-votes in connection with such proposal.

ITEM 5. Other Information

Not Applicable.

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

Exhibits None.

Reports on Form 8-K:

On April 18, 2002, the Company filed a Current Report on Form 8-K, reporting under Item 5 - "Other Events" the Company announced it had completed the acquisition of a shopping center in Allentown, Pennsylvania on December 27, 2001; the Company entered into an agreement for an \$18.5 million revolving line of credit with GMAC Commercial Mortgage Corporation; the Company entered into an agreement to acquire a shopping center in Killingly, Connecticut; the Registration Statement on Form S-3 filed by the Company on April 3, 2002 became effective.

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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.

KRAMONT REALTY TRUST

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(Registrant)

August 12, 2002 /s/ Louis P. Meshon, Sr.

Louis P. Meshon Sr., President

August 12, 2002 /s/ Etta M. Strehle

Etta M. Strehle, Chief Accounting Officer

August 12, 2002 /s/ Carl E. Kraus

Carl E. Kraus, Chief Financial Officer and Treasurer