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IRT PROPERTY CO
Form 8-K
December 09, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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) November 19, 2002

IRT PROPERTY COMPANY

(Exact Name of Registrant as Specified in Charter)

Georgia	1-7859	58-1366611
----- (State or Other Jurisdiction of Incorporation)	----- (Commission File Number)	----- (IRS Employer Identification No.)
200 Galleria Parkway, Suite 1400, Atlanta, Georgia		30339
----- (Address of Principal Executive Offices)		----- (Zip Code)
Registrant's telephone number, including area code		(770) 955-4406 -----

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ITEM 5. OTHER EVENTS.

IRT Property Company (the "Company") is filing financial statements that were originally filed in Item 8 of its 2001 Annual Report on Form 10-K, to include the audit report of Deloitte & Touche LLP on the Company's Consolidated Financial Statements as of December 31, 2001 and 2000 and for the three years in the period ended December 31, 2001. Deloitte & Touche audited these financial statements after it replaced the Company's previous auditor in May 2002. The audit report of Deloitte & Touche LLP contains an unqualified opinion, as did the audit report of the Company's previous auditor. Certain amounts in the consolidated financial statements have been reclassified to conform with the presentation in the Company's 2002 Quarterly Condensed Consolidated Financial Statements.

In addition, the Company is filing these financial statements to reflect the reclassification of discontinued operations as prescribed by Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires the Company to report in discontinued operations the results of operations of a property that has either been disposed or is classified as held for sale, unless certain

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conditions are met. SFAS No. 144 further requires the Company to reclassify results of operations from a property disposed of or held for sale subsequent to December 31, 2001 as income from discontinued operations during prior reported periods.

During the nine-month period ended September 30, 2002, the Company sold one property that was not classified as an asset held for sale as of December 31, 2001. The results of operations from this property have been reclassified as income from discontinued operations for the three years in the period ended December 31, 2001 in the accompanying consolidated statements of earnings. There is no effect on the previously reported net earnings available for common shareholders.

Management does not believe that adoption of SFAS No. 144 or the reclassifications described above have a material effect on the Company's selected consolidated financial data or management's discussion and analysis of financial condition and results of operations for the three years in the period ended December 31, 2001 as previously reported in the Company's 2001 Annual Report on Form 10-K.

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ITEM 7. FINANCIAL STATEMENTS, PROFORMA FINANCIAL INFORMATION AND EXHIBITS

IRT PROPERTY COMPANY AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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To the Board of Directors and Stockholders of
IRT Property Company
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of IRT Property Company (the "Company") (a Georgia corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of earnings, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of IRT Property Company and subsidiaries as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 26 to the consolidated financial statements, on October 28, 2002, the Company executed a merger agreement with Equity One, Inc. to which Equity One, Inc. will acquire the Company.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the index to consolidated financial statements are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

DELOITTE & TOUCHE LLP
Atlanta, Georgia

November 19, 2002

IRT PROPERTY COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2001 AND 2000

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(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	2001	2000
	-----	-----
ASSETS		
Real estate investments:		
Rental properties	\$ 659,820	\$632,337
Properties under development	23,445	4,922
	-----	-----
Accumulated depreciation	683,265	637,259
	(109,344)	(96,183)
	-----	-----
Net rental properties	573,921	541,076
Equity investment in and advances to unconsolidated affiliates	-	17,342
Net investment in direct financing leases	2,174	4,245
Mortgage loans, net	314	70
	-----	-----
Net real estate investments	576,409	562,733
Cash and cash equivalents	2,457	831
Prepaid expenses and other assets	11,634	10,996
	-----	-----
Total assets	\$ 590,500	\$574,560
	=====	=====
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable, net	\$ 134,672	\$116,509
7.3% convertible subordinated debentures, net	23,275	23,275
Senior notes, net	124,760	124,714
Indebtedness to banks	51,654	55,000
Accrued interest	4,598	5,010
Accrued expenses and other liabilities	10,652	6,918
	-----	-----
Total liabilities	349,611	331,426
Commitments and contingencies (Notes 5 and 13)		
Minority interest payable	7,755	7,981
Shareholders' equity:		
Preferred stock, \$1 par value, authorized 10,000,000 shares; none issued	-	-
Common stock, \$1 par value, 150,000,000 shares authorized; 33,234,206 shares issued in 2001 and 2000, respectively	33,234	33,234
Additional paid-in capital	272,172	272,040
Deferred compensation/stock loans	(1,732)	(1,850)
Treasury stock, at cost, 2,738,204 and 2,889,276 shares in 2001 and 2000, respectively	(22,783)	(23,883)
Cumulative distributions in excess of net earnings	(47,757)	(44,388)
	-----	-----
Total shareholders' equity	233,134	235,153
	-----	-----
Total liabilities and shareholders' equity	\$ 590,500	\$574,560
	=====	=====

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The accompanying notes are an integral part of these consolidated balance sheets.

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IRT PROPERTY COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2001	2000	1999
	-----	-----	-----
REVENUES:			
Income from rental properties	\$84,992	\$83,507	\$83,094
Interest income	158	967	381
Interest on direct financing leases	385	542	560
Other income	-	-	969
	-----	-----	-----
Total revenues	85,535	85,016	85,004
	-----	-----	-----
EXPENSES:			
Operating expenses of rental properties	21,315	20,229	19,619
Interest expense	22,525	21,747	21,473
Depreciation	14,941	14,226	13,739
Amortization of debt costs	641	541	460
General and administrative	4,570	3,507	3,432
	-----	-----	-----
Total expenses	63,992	60,250	58,723
	-----	-----	-----
EQUITY IN (LOSS) EARNINGS OF UNCONSOLIDATED AFFILIATES	(4)	(56)	4
	-----	-----	-----
Income from continuing operations before income taxes, minority interest, gain on sales of properties, discontinued operations and extraordinary item	21,539	24,710	26,285
	-----	-----	-----
INCOME TAX PROVISION	(53)	-	-
	-----	-----	-----
MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP	(530)	(568)	(654)
	-----	-----	-----
GAIN ON SALES OF OPERATING PROPERTIES AND OUTPARCELS	3,848	4,549	2,483
	-----	-----	-----
Income from continuing operations	24,804	28,691	28,114
	-----	-----	-----
DISCONTINUED OPERATIONS			
Income from discontinued operations, net of minority interest	416	348	374
	-----	-----	-----

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Income before extraordinary item	25,220	29,039	28,488
EXTRAORDINARY ITEM			
Loss on extinguishment of debt	-	-	(157)
	-----	-----	-----
NET INCOME	\$25,220	\$29,039	\$28,331
	=====	=====	=====
PER SHARE: (Note 20)			
Income from continuing operations - basic	\$ 0.82	\$ 0.91	\$ 0.85
Income from discontinued operations - basic	0.01	0.01	0.01
	-----	-----	-----
Income before extraordinary item	0.83	0.92	0.86
Extraordinary item - basic	-	-	-
	-----	-----	-----
Net earnings - basic	\$ 0.83	\$ 0.92	\$ 0.86
	=====	=====	=====
Income from continuing operations - diluted	\$ 0.82	\$ 0.90	\$ 0.85
Income from discontinued operations - diluted	0.01	0.01	0.01
	-----	-----	-----
Income before extraordinary item	0.83	0.91	0.86
Extraordinary item - diluted	-	-	-
	-----	-----	-----
Net earnings - diluted	\$ 0.83	\$ 0.91	\$ 0.86
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:			
Basic	30,322	31,536	33,119
	=====	=====	=====
Diluted	33,301	34,432	33,904
	=====	=====	=====

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

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IRT PROPERTY COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Total Shares		Common Stock	Additional Paid-In Capital	Treasure Stock
	Common Stock	Treasury Stock			
BALANCE AT DECEMBER 31, 1998	33,252	-	\$33,252	\$272,975	\$
Net earnings	-	-	-	-	-
Dividends declared - \$.93 per share	-	-	-	-	-
Exercise of options	4	-	4	33	-
Amortization of deferred compensation	-	-	-	-	-
Forfeiture of restricted stock	(22)	-	(22)	(203)	-
Adjustment to minority interest of unitholders	-	-	-	-	-

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in operating partnership for issuance of additional units	-	-	-	(357)	
Acquisition of treasury stock	-	(517)	-	-	(4,02)
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 1999	33,234	(517)	33,234	272,448	(4,02)
Net earnings	-	-	-	-	
Dividends declared - \$.94 per share	-	59	-	(16)	51
Exercise of options	-	37	-	(8)	29
Amortization of deferred compensation	-	-	-	-	
Issuance of restricted stock to employees	-	25	-	13	19
Forfeiture of restricted stock	-	(5)	-	(2)	(3)
Adjustment to minority interest of unitholders in operating partnership for issuance of additional units	-	-	-	(395)	
Acquisition of treasury stock	-	(2,488)	-	-	(20,81)
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2000	33,234	(2,889)	33,234	272,040	(23,88)
Net earnings	-	-	-	-	
Dividends declared - \$.94 per share	-	-	-	-	
Exercise of options	-	196	-	114	1,48
Shares issued pursuant to the stock purchase plan	-	2	-	5	1
Amortization of deferred compensation	-	-	-	-	
Adjustment to minority interest of unitholders in operating partnership for issuance of additional units	-	-	-	13	
Acquisition of treasury stock	-	(47)	-	-	(40)
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2001	33,234	(2,738)	\$33,234	\$272,172	\$ (22,78)
	=====	=====	=====	=====	=====

	Cumulative Distributions in Excess of Net Earnings	Total Shareholders' Equity
	-----	-----
BALANCE AT DECEMBER 31, 1998	\$ (41,068)	\$ 262,773
Net earnings	28,331	28,331
Dividends declared - \$.93 per share	(30,908)	(30,908)
Exercise of options	-	37
Amortization of deferred compensation	-	103
Forfeiture of restricted stock	-	-
Adjustment to minority interest of unitholders in operating partnership for issuance of additional units	-	(357)
Acquisition of treasury stock	-	(3,776)
	-----	-----
BALANCE AT DECEMBER 31, 1999	(43,645)	256,203
Net earnings	29,039	29,039
Dividends declared - \$.94 per share	(29,782)	(29,285)
Exercise of options	-	287
Amortization of deferred compensation	-	122
Issuance of restricted stock to employees	-	-
Forfeiture of restricted stock	-	-
Adjustment to minority interest of unitholders in operating partnership for	-	-

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issuance of additional units	-	(395)
Acquisition of treasury stock	-	(20,818)
	-----	-----
BALANCE AT DECEMBER 31, 2000	(44,388)	235,153
Net earnings	25,220	25,220
Dividends declared - \$.94 per share	(28,589)	(28,589)
Exercise of options	-	1,600
Shares issued pursuant to the stock purchase plan	-	24
Amortization of deferred compensation	-	118
Adjustment to minority interest of unitholders in operating partnership for issuance of additional units	-	13
Acquisition of treasury stock	-	(405)
	-----	-----
BALANCE AT DECEMBER 31, 2001	\$ (47,757)	\$ 233,134
	=====	=====

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

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IRT PROPERTY COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(IN THOUSANDS)

	2001	2000
	-----	-----
Cash flows from operating activities:		
Net earnings	\$ 25,220	\$ 29,039
Adjustments to reconcile earnings to net cash from operating activities:		
Depreciation	15,088	14,368
Gain on sales of operating properties	(2,498)	(4,549)
Gain on sales of outparcels	(1,350)	-
Minority interest of unitholders in partnership	(213)	288
Straight line rent adjustment	(533)	(153)
Amortization of deferred compensation	118	122
Amortization of debt costs and discounts	673	700
Amortization of capitalized leasing income	152	166
Extraordinary loss - extinguishment of debt	-	-
Changes in assets and liabilities:		
Increase in accrued interest on debentures and senior notes	40	-
Decrease (increase) in interest receivable, prepaid expenses and other assets	476	(1,708)
Increase in accrued expenses and other liabilities	2,317	143
	-----	-----
Net cash flows from operating activities	39,490	38,416
	-----	-----
Cash flows used in investing activities:		
Additions to operating properties, net	(23,801)	(19,424)

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Additions to development properties, net	(13,443)	-
Proceeds from sales of operating properties, net	11,196	16,719
Proceeds from sale of outparcels, net	2,113	-
Investment in unconsolidated affiliates	-	(10,091)
Purchase of unconsolidated affiliate, net of assets acquired	177	-
Distribution from dissolution of unconsolidated affiliate	21	-
Funding of mortgage loans	(516)	(4,507)
Collections of mortgage loans	24	292
	-----	-----
Net cash flows used in investing activities	(24,229)	(17,011)
	-----	-----
Cash flows used in financing activities:		
Cash dividends, net	(28,589)	(29,285)
Purchase of treasury stock	(405)	(20,818)
Exercise of stock options	1,600	287
Issuance of shares under stock purchase plan	24	-
Proceeds from mortgage notes payable	20,740	-
Principal amortization of mortgage notes payable	(2,577)	(2,134)
Repayment of mortgage notes payable	-	(3,521)
Proceeds from 7.77% senior notes issuance	50,000	-
Repayment of 7.45% senior notes	(50,000)	-
(Decrease) increase in bank indebtedness	(3,346)	34,600
Payment of deferred financing costs	(1,082)	(217)
	-----	-----
Net cash flows used in financing activities	(13,635)	(21,088)
	-----	-----
Net increase in cash and cash equivalents	1,626	317
Cash and cash equivalents at beginning of period	831	514
	-----	-----
Cash and cash equivalents at end of period	\$ 2,457	\$ 831
	=====	=====
Supplemental disclosures of cash flow information:		
Total cash paid during period for interest	\$ 23,937	\$ 21,501
	=====	=====

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

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IRT PROPERTY COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001, 2000, AND 1999

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. ORGANIZATION AND NATURE OF OPERATIONS

IRT Property Company, individually and collectively with its subsidiaries ("IRT" or the "Company"), was founded in 1969 and became a public company in May 1971 (NYSE: IRT). The Company is an owner, operator, redeveloper and developer of high quality, well located neighborhood and community shopping centers. The Company's portfolio consists of 87 shopping centers, three shopping center investments, four development properties, one industrial property and four mortgage loans. The 87 shopping centers and the three shopping center investments total approximately 9.7 million square feet of retail space and are

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located in eleven southeastern states. IRT shopping centers are anchored by necessity-oriented retailers such as supermarkets, drug stores, national value retailers and department stores.

The Company has four wholly-owned subsidiaries. VW Mall, Inc. ("VWM") was formed in July 1994, but is currently inactive. IRT Alabama, Inc. ("IRTAL") was formed in August 1997 to purchase Madison Centre in Madison, Alabama, which it continues to own, but it conducts no significant operations beyond this property. IRT Management Company ("IRTMC") was formed in 1990 and currently holds 93.3% of the operating units of IRT Partners L.P. ("LP").

IRT Capital Corporation II ("IRTCCII") is a taxable real estate investment trust ("REIT") subsidiary and was formed under the laws of Georgia in 1999. IRTCCII elected on March 15, 2001 to become a taxable REIT subsidiary pursuant to the Tax Relief Extension Act of 1999 as amended (the "REIT Modernization Act of 1999"). Although IRTCCII is primarily used by the company to develop properties, it also has the ability to buy and sell properties, provide equity to developers and perform third-party management, leasing and brokerage operations.

The Company also serves as general partner of LP, a Georgia limited partnership formed in 1998 to enhance the Company's acquisition opportunities through a "downreit" structure. This structure offers potential sellers the ability to make a tax-deferred sale of their real estate investment in exchange for Operating Partnership Units ("OP Units") of LP. OP Units receive the same distributions as the Company's common stock and are redeemable for shares of the Company's common stock. IRT and IRTMC, together, owned approximately 1% and 93.3%, respectively, of LP as of December 31, 2001. The accounts of LP are included in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The accompanying consolidated financial statements include the accounts of IRT, its wholly-owned subsidiaries, majority-owned and controlled subsidiaries and the partnership. Prior to 2001, the Company had investments in affiliates over which the Company did not exercise control, and therefore accounted for the investments by the equity method. Intercompany transactions and balances have been eliminated in consolidation.

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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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions within the financial statements include impairment evaluation of operating and development properties and other long-term assets, determination of useful lives of assets subject to depreciation or amortization and valuation adjustments to tenant related accounts. Actual results could differ from those estimates.

REVENUE RECOGNITION

Leases with tenants are accounted for as operating leases. Rental revenue for leases entered into after January 1, 2000 is recognized on a straight-line basis over the initial lease term. Rental revenue for leases entered into prior to January 1, 2000, is accounted for based on contractual rental obligations,

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which is not materially different from revenue recorded on a straight-line basis to any interim or annual period. Certain tenants are required to pay percentage rents based on their gross sales exceeding specified amounts. This percentage rental revenue is recorded upon collection, which is not materially different from recognizing such percentage rental revenue on an accrual basis. The Company receives reimbursements from tenants for real estate taxes, common area maintenance and other recoverable costs. These tenant reimbursements are recognized as revenue in the period the related expense is recorded.

The Company makes specific valuation adjustments (bad debt reserves) to tenant related revenue based upon the tenant's credit and business risk.

Other non-rental revenue is recognized as revenue when earned.

Gain on sales of real estate assets is recognized at the time title to the asset is transferred to the buyer, subject to the adequacy of the buyer's initial and continuing investment and the assumption by the buyer of all future ownership risks of the property. The gain on sales of operating properties is calculated based on the net carrying value of the property at the time of sale. The net carrying value represents the cost of acquisition, renovation or betterment of the property less the accumulated depreciation of such costs. For gains on outparcel sales, the gain is calculated based on the value assigned to the outparcel lot through specific identification of costs or the relative sales value of the outparcel lot to the entire property.

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RENTAL PROPERTIES AND PROPERTIES UNDER DEVELOPMENT

Rental properties are stated at cost less accumulated depreciation. Costs incurred for the acquisition, renovation, and betterment of the properties are capitalized and depreciated over their estimated useful lives. Recurring maintenance and repairs are charged to expense as incurred. Depreciation is computed on a straight-line basis generally for a period of sixteen to forty years for significant improvements and buildings. Tenant improvements are depreciated on a straight-line basis over the life of the related lease.

Properties under development are stated at cost. Depreciation does not begin until the asset is placed in service. Acquisition, development and construction costs are capitalized, including predevelopment costs, interest and salaries. Predevelopment costs include costs for zoning, planning, development feasibility studies and other costs directly related to the development property. Unsuccessful predevelopment efforts and their related costs are expensed when it is probable development efforts will not continue. Interest costs and salaries directly attributable to the development process are capitalized for the period of development to ready the property for its intended use.

The Company periodically evaluates the carrying value of its long-lived assets, including operating and development properties, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Impairment is based on whether it is probable that undiscounted future cash flows from each property will be less than its net book value. If an impairment exists, the asset is written down to its estimated fair value and an impairment loss is recognized.

CASH EQUIVALENTS

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

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DEFERRED LEASING COSTS

Internal and external commission costs incurred in obtaining tenant leases are included in prepaid expenses and other assets. The costs are amortized on a straight-line basis over the terms of the related leases. Upon lease cancellation or termination, unamortized costs are charged to operations.

DEBT ISSUE AND DEFERRED FINANCE COSTS

Costs related to the issuance of debt instruments and loan costs incurred in obtaining long-term financing are included within prepaids and other assets. The costs are capitalized and amortized over the life of the related issue or financing on a straight-line basis, which approximates the effective interest method. Upon conversion, in the event of redemption or prepayment, applicable unamortized costs are charged to shareholders' equity or to operations, respectively.

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INCOME TAXES

The Company has elected since its inception to be treated as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). In accordance with the Code, a REIT must distribute at least 90% (95% prior to 2001) of its taxable income to its shareholders each year and meet certain other qualifications prescribed by the Code. If all qualifications are met, the Company will not be taxed on that portion of its taxable income which is distributed to its shareholders. For the special provisions applicable to REITs, see Sections 856-860 of the Code. IRT intends to continue to elect to be treated and to continue to qualify as a REIT under the Code.

If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax, at regular corporate tax rates, on its taxable income. The Company may be disqualified from treatment as a REIT for the four taxable years following the year during which its REIT qualification is lost. Even if the Company maintains its qualification for taxation as a REIT, the Company also may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed income.

The Company has one wholly-owned subsidiary, IRTCCII, that elected on March 15, 2001 to become a taxable REIT subsidiary pursuant to the REIT Modernization Act of 1999. The services provided by this subsidiary generate taxable income and are taxed at regular corporate income tax rates. The corresponding income tax is expensed.

EARNINGS PER SHARE

Basic EPS excludes dilution and is computed by dividing net earnings by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares and then shared in the earnings of the Company.

STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). The Company has adopted the disclosure option of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 requires companies that do not choose to account for stock-based compensation as prescribed by the statement to disclose the pro forma effects on net income and earnings per share as if SFAS No. 123 had been adopted. Additionally, certain

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other disclosures are required with respect to stock-based compensation and the assumptions used to determine the pro forma effects of SFAS No. 123.

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SEGMENT REPORTING

In 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement established standards for reporting financial and descriptive information about operating segments in annual financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its senior management group.

The Company owns and operates retail shopping centers in the southeastern United States. Such shopping centers generate rental and other revenue through the leasing of shop spaces to a diverse base of tenants. The Company evaluates the performance of each of its shopping centers on an individual basis due to specific geographical market demographics and local competitive forces. However, because the shopping centers have generally similar economic characteristics and tenants, the shopping centers have been aggregated into one reportable segment.

DERIVATIVE FINANCIAL INSTRUMENTS

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. This statement, as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair market value. SFAS No. 133 requires that changes in the derivative's fair market value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. The Company adopted this statement on January 1, 2001. The Company did not hold and has not engaged in transactions using derivative financial instruments. The adoption of this statement did not have a material effect on the Company's balance sheets or statements of earnings.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, SFAS No. 141, "Business Combinations," was issued. This statement eliminates pooling of interests accounting and requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. The Company adopted this standard on July 1, 2001 and adoption of this standard did not have a significant effect on the Company's financial statements.

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets," was issued establishing accounting and reporting standards that address how goodwill and intangible assets should be accounted for within the financial statements. The statement requires companies to not amortize goodwill and intangible assets with infinite lives, but to test such assets for impairment on a regular basis. An intangible asset that has a finite life should be amortized over its useful life and evaluated for impairment on a regular basis. This statement is effective for fiscal years beginning after December 15, 2001. The Company adopted this standard on January 1, 2002 and adoption of this standard did not have a significant effect on the Company's financial statements.

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In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued establishing new rules and clarifying implementation issues with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," by allowing a probability-weighted cash flow estimation approach to measure the impairment loss of a long-lived asset. The statement also established new standards for accounting for discontinued operations. Transactions that qualify for reporting in discontinued operations include the disposal of a component of an entity's operations that comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The statement is effective for fiscal years beginning after December 15, 2001. The Company adopted this standard on January 1, 2002 and adoption of this standard did not have a significant effect on the Company's financial statements.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections", was issued. This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". This Statement also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers". This Statement amends FASB Statement No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The adoption of SFAS No. 145 had no effect on the financial position and results of operations of the Company.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", was issued which nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit and Activity (including Certain Costs Incurred in a Restructuring)". The adoption of SFAS No. 146 had no effect on the financial position and results of operations of the Company.

RECLASSIFICATION OF AMOUNTS

Certain amounts in the consolidated financial statements have been reclassified to conform with the presentation in the Company's 2002 Quarterly Condensed Consolidated Financial Statements.

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3. RENTAL PROPERTIES

Buildings and related improvements are depreciated on a straight-line basis for a period of 16 to 40 years. Tenant improvements are depreciated on a straight-line basis over the life of the related lease. Rental properties are comprised of the following:

DECEMBER 31,	

2001	2000

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Land covered by purchase-leaseback agreements	\$ 250	\$ 686
Land related to building and improvements	153,300	146,102
Building and improvements	493,188	476,510
Tenant improvements	13,082	9,039
	-----	-----
 Total rental properties	 \$659,820	 \$632,337
	=====	=====

Upon expiration of the leases for land covered by purchase-leaseback agreements, all improvements on the land will become the property of the Company. The lessee of one of these properties had the option, subject to certain conditions, to repurchase the land. The option price was for an amount greater than the Company's carrying value of the related land. This option to repurchase the land was exercised in 2001, resulting in a gain to the Company of \$347, included in the gain on sale of operating properties and outparcels in the accompanying Consolidated Statements of Earnings.

Rental properties acquired and disposed in 2001, 2000 and 1999 are summarized below. In addition, see Footnote 7 for additional disclosure of a property disposition in 2001.

SHOPPING CENTER ACQUISITIONS

Date Acquired	Property Name	City, State	Square Footage	Year Built/ Renovated	% Leased at Acquis
-----	-----	-----	-----	-----	-----
			(unaudited)		
			2001 ACQUISITIONS		
4/12/01	Unigold Shopping Center	Orlando, FL	102,985	1987	
11/30/01	Carrollwood Center	Tampa, FL	96,242	1971/1996	

			199,227		
			=====		
			2000 ACQUISITIONS		
12/28/00	Pine Ridge Square	Coral Springs, FL	117,399	1986	1
			1999 ACQUISITIONS		
2/26/99	Shoppes at Lago Mar	Kendall, FL	82,613	1995	
3/15/99	Willamsburg at Dunwoody	Dunwoody, GA	44,928	1983	1

			127,541		
			=====		

SHOPPING CENTER DISPOSITIONS

Date Sold	Property Name	City, State	Square Footage	Sales Price	Net Proceeds
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(unaudited)					
2001 DISPOSITIONS					
4/18/01	Eden Center	Eden, NC	56,355	\$ 3,950	\$ 3,830
5/31/01	Chadwick Square	Hendersonville, NC	32,100	2,401	2,351
6/8/01	Ft. Walton Beach Plaza	Ft. Walton Beach, FL	48,248	1,650	1,515
			136,703	\$ 8,001	\$ 7,696
2000 DISPOSITIONS					
1/14/00	Palm Gardens	Largo, FL	49,890	\$ 1,500	\$ 1,389
8/1/00	Palm Gardens (1)				651
2/18/00	Westgate Square	Sunrise, FL	104,853	11,355	10,271
8/31/00	Abbeville	Abbeville, SC	59,525	177	135
10/3/00	Carolina Place	Hartsville, SC	36,560	2,104	2,016
12/29/00	Chester Plaza	Chester, SC	71,443	2,250	2,257
			322,271	\$17,386	\$ 16,719
1999 DISPOSITIONS					
6/1/99	Litchfield Landing	Pawley's Island, SC	42,201	\$ 3,190	\$ 3,129
6/1/99	First Street Station	Albemarle, NC	52,230	3,137	3,038
6/1/99	Taylorsville	Taylorsville, NC	48,537	2,571	2,430
6/1/99	University Center	Greenville, NC	56,180	3,462	3,399
	Other			417	413
			199,148	\$12,777	\$ 12,409