

Edgar Filing: AEGIS REALTY INC - Form 10-Q

AEGIS REALTY INC
Form 10-Q
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 quarterly period ended June 30, 2002

OR

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

Commission File Number 1-13239

AEGIS REALTY, INC.

(Exact name of Registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

13-3916825

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

625 Madison Avenue, New York, New York

(Address of principal executive offices)

10022

(Zip Code)

Registrant's telephone number, including area code (212) 421-5333

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 ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, \$.01 par value, 8,052,847 shares outstanding at August 13,

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2002

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AEGIS REALTY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands)

	=====	=====
	June 30,	December 31,
	2002	2001
	-----	-----
	(Unaudited)	
ASSETS		
Real estate, net	\$ 174,224	\$ 171,357
Investment in partnerships	5,381	5,475
Loans receivable from affiliate	2,277	2,289
Cash and cash equivalents	3,956	2,917
Accounts receivable-tenants, net of allowance for doubtful accounts of \$455,000 and \$378,000, respectively	2,869	3,005
Deferred costs, net	3,869	4,086
Other assets	1,253	909
	-----	-----
Total Assets	\$ 193,829	\$ 190,038
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes payable	\$ 68,471	\$ 66,148
Accounts payable and other liabilities	5,724	3,768
Distributions payable	2,349	2,116
	-----	-----
Total Liabilities	76,544	72,032
	-----	-----
Minority interest of unitholders in the Operating Partnership	6,196	6,235
	-----	-----
Commitments and Contingencies		
Stockholders' equity:		
Common stock; \$.01 par value; 50,000,000 shares authorized; 8,054,631 shares issued and 8,052,847 shares outstanding in 2002 and 2001	80	80
Additional paid in capital	125,399	125,379
Distributions in excess of net income	(14,390)	(13,688)
	-----	-----
Total Stockholders' Equity	111,089	111,771

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Total Liabilities and Stockholders' Equity	\$ 193,829	\$ 190,038
	=====	=====

See accompanying notes to consolidated financial statements

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AEGIS REALTY, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Dollars in thousands except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenues:				
Rental income	\$ 5,117	\$ 4,992	\$ 10,227	\$ 9,988
Tenant reimbursements	1,334	1,171	2,778	2,423
Early lease termination	735	3	735	17
Income from equity investments	82	63	179	159
Interest income	64	461	127	590
Other	39	39	69	68
Total revenues	7,371	6,729	14,115	13,245
Expenses:				
Repairs and maintenance	503	414	1,062	818
Operating	330	325	813	672
Real estate taxes	627	626	1,273	1,245
Interest	876	1,155	1,736	2,429
Management fees	639	589	1,255	1,220
General and administrative	232	189	419	440
Depreciation and amortization	1,589	1,516	3,110	2,970
Terminated transaction costs	--	2,326	--	2,326
Other	359	251	722	497
Total expenses	5,155	7,391	10,390	12,617
Income before minority interest	2,216	(662)	3,725	628
Minority interest in income of the Operating Partnership	(195)	58	(329)	(54)
Net income (loss)	\$ 2,021	\$ (604)	\$ 3,396	\$ 574
	=====	=====	=====	=====
Net income (loss) per share:				

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Basic	\$.25	\$ (.08)	\$.42	\$.07
	=====	=====	=====	=====
Diluted	\$.25	\$ (.08)	\$.42	\$.07
	=====	=====	=====	=====
Weighted average shares outstanding:				
Basic	8,054,631	8,051,141	8,054,335	8,050,816
	=====	=====	=====	=====
Diluted	8,069,037	8,051,141	8,068,228	8,050,816
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

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AEGIS REALTY, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Stockholders' Equity
(Dollars in thousands)
(Unaudited)

	Common Stock		Additional	Distributions	
	Shares	Amount	Paid-in Capital	in Excess of Net Income	Total
	-----	-----	-----	-----	-----
Balance at January 1, 2002	8,052,847	\$ 80	\$ 125,379	\$ (13,688)	\$ 111,711
Net income				3,396	3,396
Issuance of shares of common stock	1,784		20		1,804
Distributions				(4,098)	(4,098)
	-----	-----	-----	-----	-----
Balance at June 30, 2002	8,054,631	\$ 80	\$ 125,399	\$ (14,390)	\$ 111,711
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

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AEGIS REALTY, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

=====

Six Months Ended
June 30,

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	2002	2001
	-----	-----
Cash flows from operating activities:		
Net income	\$ 3,396	\$ 574
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,131	2,944
Minority interest in income of the Operating Partnership	329	54
Distributions from equity investments in excess of income	74	101
Terminated transaction costs	--	2,326
Changes in operating assets and liabilities:		
Accounts receivable-tenants	60	760
Allowance for doubtful accounts	76	--
Other assets	(264)	(96)
Due to Advisor and affiliates	(60)	449
Accounts payable and other liabilities	1,956	40
Leasing commissions and costs	(275)	(253)
	-----	-----
Net cash provided by operating activities	8,423	6,899
	-----	-----
Cash flows from investing activities:		
Improvements to real estate	(5,296)	(1,599)
Increase in deferred acquisition expenses	--	(939)
Repayments of loans receivable from affiliate	12	11
Principal payments received on mortgage loans	--	3,217
	-----	-----
Net cash used in investing activities	(5,284)	690
	-----	-----
Cash flows from financing activities:		
Proceeds from notes payable	2,500	1,500
Periodic repayments of notes payable	(177)	(164)
Distributions paid to stockholders	(3,866)	(3,864)
Increase in deferred loan costs	(189)	(3)
Distributions paid to minority interest	(368)	(367)
	-----	-----
Net cash used in financing activities	(2,100)	(2,898)
	-----	-----

See accompanying notes to consolidated financial statements
(continued)

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AEGIS REALTY, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

=====

Six Months Ended
June 30,

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	2002	2001
Net increase in cash and cash equivalents	1,039	4,691
Cash and cash equivalents at the beginning of the period	2,917	1,474
Cash and cash equivalents at the end of the period	\$ 3,956	\$ 6,165
Supplemental information:		
Interest paid	\$ 1,740	\$ 2,221

See accompanying notes to consolidated financial statements

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AEGIS REALTY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2002
(Unaudited)

Note 1 - General

Aegis Realty, Inc. ("Aegis" or the "Company") is a Maryland corporation that has qualified as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 as amended (the "Code"). The Company was formed to acquire, own, operate and renovate primarily supermarket-anchored neighborhood and community shopping centers. As of June 30, 2002, the Company owned a portfolio of 28 retail properties containing a total of approximately 3.0 million gross leaseable square feet and held partnership interests in two suburban garden apartment properties.

The Company was formed on October 1, 1997 as the result of the consolidation (the "Consolidation") of four publicly registered, non-listed limited partnerships, Summit Insured Equity L.P. ("Insured I"), Summit Insured Equity L.P. II ("Insured II"), Summit Preferred Equity L.P. and Eagle Insured, L.P. (the "Partnerships", and each individually a "Partnership"). One of the general partners of the Partnerships was an affiliate of Related Capital Company ("Related"), a nationwide, fully integrated real estate financial services firm. Pursuant to the Consolidation, the Company issued shares of its common stock, par value \$.01 per share (the "Common Stock") to all partners in the Partnerships in exchange for their interests in the Partnership based upon each partner's proportionate interest in the Common Stock issued to their Partnership in the Consolidation.

The Company is governed by a board of directors comprised of two independent directors and three directors who are affiliated with Related. The Company has engaged Related Aegis LP (the "Advisor"), a Delaware limited partnership and an affiliate of Related, to manage its day to day affairs.

The Company owns all of its assets directly or indirectly through Aegis Realty Operating Partnership, LP, a Delaware limited partnership (the "Operating Partnership" or "OP"), of which the Company is the sole general partner and holder of 91.31% of the units of partnership interest (the "OP Units") at June

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30, 2002. At June 30, 2002, 5.54% of the OP Units are held by the sellers of three of the retail properties and 3.15% were held by affiliates of Related.

During 2001, the Company announced it had terminated a planned acquisition of the assets of PO'B Montgomery & Company (POB).

In light of the decision to terminate the acquisition of POB, the Company, at the direction of the Board of Trustees, has retained Robertson Stephens to assist in developing an appropriate marketing strategy for the potential sale of the Company or its assets. If acceptable values cannot be achieved, the Board of Trustees will then pursue alternative strategies with the goal of maximizing stockholder value. The Company has discontinued its pursuit of additional investments and is focusing on the continuation of active management, leasing and redevelopment of the property portfolio in order to maintain the value of its portfolio upon a sale. While FleetBoston Financial announced a decision to wind down the investment banking operations of Robertson Stephens, a small group of employees, including the team assigned to the Company, will continue with the firm during a transition period, and will continue to advise the Company.

The consolidated financial statements include the accounts of the Company and its subsidiary partnerships. All intercompany accounts and transactions with the subsidiary partnerships have been eliminated in consolidation. Unless otherwise indicated, the "Company", as hereinafter used, refers to Aegis Realty, Inc. and its consolidated subsidiary partnerships.

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AEGIS REALTY, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements June 30, 2002 (Unaudited)

The accompanying consolidated financial statements have been prepared without audit. In the opinion of management, the financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of June 30, 2002 and the results of its operations and its cash flows for the three and six months ended June 30, 2002 and 2001. However, the operating results for the interim periods may not be indicative of the results for the full year.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2001.

The consolidated financial statements of the Company are prepared on the accrual basis of accounting in conformity with GAAP, which requires the Advisor to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

The Company has no items of other comprehensive income; therefore, the Company's net income and comprehensive income are the same for all periods presented.

In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (SFAS 141) and Statement No. 142, "Goodwill and Other

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Intangible Assets" (SFAS 142). These statements establish new standards for accounting and reporting for business combinations and for goodwill and intangible assets resulting from business combinations. SFAS 141 applies to all business combinations initiated after June 30, 2001. The Company implemented SFAS 142 on January 1, 2002. Implementation of these statements did not have a material impact on the Company's financial statements.

In June of 2001, the FASB issued SFAS No, 143, "Accounting for Asset Retirement Obligations" (effective January 1, 2003). SFAS No. 143 requires the recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. Management believes the implementation of SFAS No. 143 will not have a material impact on the financial statements.

In August of 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long Lived Assets". SFAS No. 144 supercedes existing accounting literature dealing with impairment and disposal of long-lived assets, including discontinued operations. It addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of, and expands current reporting for discontinued operations to include disposals of a "component" of an entity that has been disposed of or is classified as held for sale. The Company implemented SFAS No. 144 on January 1, 2002. Implementation of this statements did not have a material impact on the Company's financial statements.

In April 2002, the Financial Accounting Standards Board issued Statement No. 145 "Recision of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" (effective for fiscal years beginning or transactions occurring after May 15, 2002). SFAS No. 145 rescinds certain authoritative pronouncements and amends, clarifies or describes the applicability of others. Management does not believe the implementation of SFAS 145 will have a material impact on the Company's financial statements.

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AEGIS REALTY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2002
(Unaudited)

Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 presentation.

Note 2 - Real Estate

The components of real estate are as follows:

	June 30, 2002	December 31, 2001
	-----	-----
Land	\$ 42,041,156	\$ 42,041,873
Buildings and improvements	166,389,557	161,165,742
	-----	-----
	208,430,713	203,207,615
Less: Accumulated depreciation	(34,206,407)	(31,851,076)
	-----	-----

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\$174,224,306 \$171,356,539
 =====

Amounts estimated to be recoverable from future operations and ultimate sales are greater than the carrying value of each property owned at June 30, 2002. However, the carrying value of certain properties may be in excess of their fair value as of such date.

Note 3 - Deferred Costs

The components of deferred costs are as follows:

	June 30, 2002	December 31, 2001
	-----	-----
Deferred loan costs	\$ 3,697,491	\$ 3,508,151
Deferred leasing commissions and costs	3,520,699	3,330,350
	-----	-----
	7,218,190	6,838,501
Less: Accumulated amortization	(3,348,701)	(2,752,725)
	-----	-----
	\$ 3,869,489	\$ 4,085,776
	=====	=====

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AEGIS REALTY, INC. AND SUBSIDIARIES
 Notes to Consolidated Financial Statements
 June 30, 2002
 (Unaudited)

NOTE 4 - Notes Payable

As of June 30, 2002 and December 31, 2001, the Company had notes payable with outstanding balances totaling \$68,470,540 and \$66,147,599, respectively. Further information regarding the notes is as follows:

Noteholder	Date of Note/ Maturity Date	Interest Rate	Monthly Payment of Principal and Interest	Outstanding Balance at June 30, 2002	Outstanding Balance at December 31, 2001	B P D
-----	-----	-----	-----	-----	-----	-----
(a)	12/29/97 12/29/03	(b)	Interest only	\$45,693,000 (c)	\$43,193,000 (c)	
Heller Financial, Inc.	6/24/97 (e) 7/1/07	8.50%	\$19,992	2,482,746	2,496,829	\$2

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Nomura	10/28/97 (f)	7.54%	\$33,130	3,629,723	3,689,580	
Asset Capital Corporation	11/11/22					
Chase Bank	12/16/96 (g)	8.875%	\$51,717	6,191,398	6,226,054	\$5
	1/1/07					
Merrill Lynch	9/18/97 (h)	7.73%	\$79,509	10,473,673	10,542,136	\$9
				-----	-----	
Credit Corporation	10/1/07					
				\$68,470,540	\$66,147,599	
				=====	=====	

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AEGIS REALTY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2002
(Unaudited)

(a) The Credit Facility is shared among Fleet Bank (28.57%), KeyBank National Association (28.57%), Citizens Bank of Rhode Island (28.57%) and Sovereign Bank (14.29%).

In connection with the Credit Facility, the Company must comply with various financial covenants including maximum loan to value ratios, interest and fixed charge coverage ratios, and net worth requirements. Since the second quarter of 2001, through the current quarter, the Company was in compliance with all covenants pertaining to this Credit Facility except one. The Company was not in compliance with a covenant requiring that aggregate distributions by the Company during any consecutive four quarters not exceed ninety percent of the Company's funds from operations ("FFO") for such periods. Unlike the covenant provisions based on adjusted net income, under the covenant in question, the Company's FFO is not adjusted for extraordinary or nonrecurring items. As a result, FFO was significantly reduced by nonrecurring expenses related to the termination of the POB transaction (Note 1). The Company received a permanent waiver of this covenant from each of the syndicate banks of the Credit Facility for each of the quarters' of non-compliance.

(b) The interest rate under the Credit Facility can float 1/2% under Fleet Bank's base rate or can be fixed in 30, 60, 90 and 180 day periods at various spreads over the indicated Euro-contract, ranging from 1.75% to 2.125% depending on the Company's ratio of total debt to total assets. The Company has currently elected the 30 day rate which was 1.82% at June 30, 2002.

(c) Outstanding balance of an \$80 million senior revolving credit facility ("Credit Facility").

(d) The Credit Facility was collateralized at June 30, 2002 by nineteen Retail Properties and one investment in a partnership with carrying values of \$109,525,900 and \$4,781,251, respectively. In addition, the obligation under the Credit Facility is guaranteed by the Company, Summit Insured I, Summit Insured II (two of the Company's subsidiaries) and TCR-Pinehurst Limited Partnership (one of the two partnerships in which the Company has invested).

(e) Note was assumed upon purchase by the Company on March 30, 1998 of the property collateralizing the note.

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(f) Note was assumed upon purchase by the Company on April 22, 1998 of the property collateralizing the note.

(g) Note was assumed upon purchase by the Company on November 24, 1998 of the property collateralizing the note.

(h) Note was assumed upon purchase by the Company on December 9, 1998 of the property collateralizing the note.

Note 5 - Common Stock and Stock Options

Each independent director is entitled to receive annual compensation for serving as a director in the aggregate amount of \$17,500 payable in cash (maximum of \$7,500 per year) and/or shares of Common Stock valued based on the fair market value at the date of issuance. As of June 30, 2002 and December 31, 2001, 10,204 and 8,420 shares, respectively, having an aggregate value at the date of issuance of \$105,000 and \$85,000, respectively, have been issued to the Company's two independent directors as compensation for their services. For the six months ended June 30, 2002, the dilutive effect, calculated using the treasury stock method, of the 241,522 stock options granted August 12, 2001, was 6,140 shares.

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AEGIS REALTY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2002
(Unaudited)

Note 6 - Related Party Transactions

Pursuant to the Advisory Agreement, the Advisor receives (i) acquisition fees equal to 3.75% of the acquisition price of properties acquired; (ii) mortgage selection fees based on the principal amount of mortgage loans funded; (iii) asset management fees equal to .375% of the total invested assets of the Company; (iv) a 1.5% liquidation fee based on the gross sales price of the assets sold by the Company in connection with a liquidation of the Company's assets; and (v) reimbursement of certain administrative costs incurred by the Advisor on behalf of the Company.

The Company's Retail Properties are managed by RCC Property Advisors (the "Property Manager"), an affiliate of the Advisor, (i) for a fee equal to 4.5% of the gross rental receipts from the Retail Properties, which is competitive with such fees paid in the areas in which the properties are located; and (ii) in connection with asset sales if the new owner terminates the property management agreement, a fee equal to 1% of gross sales price. The Property Manager also receives standard leasing commissions for space leased to new tenants and for lease renewals and is reimbursed for certain expenses.

The costs incurred to related parties for the three and six months ended June 30, 2002 and 2001 were as follows:

Three Months Ended June 30,		Six Months Ended June 30,	
2002	2001	2002	2001

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Expense reimbursements	\$ 69,731	\$ 71,526	\$ 139,843	\$ 141,638
Property management fees	322,023	279,453	625,311	597,298
Leasing commissions and costs	97,948	113,223	261,981	191,692
Asset management fees	191,085	190,900	380,071	383,987
	-----	-----	-----	-----
	\$ 680,787	\$ 655,102	\$1,407,206	\$1,314,615
	=====	=====	=====	=====

Note 7 - Earnings Per Share

Basic and diluted net income (loss) per share in the amount of \$.25 and \$(.08) and \$.42 and \$.07 for the three and six months ended June 30, 2002 and 2001, respectively, equals net income (loss) for the period of \$2,020,697 and \$(604,383) and \$3,396,134 and \$573,656, respectively, divided by the weighted average number of shares outstanding for the periods (8,054,631 and 8,051,141 and 8,054,335 and 8,050,816 respectively for the basic earnings per share and 8,069,037 and 8,051,141, and 8,068,228 and 8,050,816 for the diluted earnings per share).

There is no difference between basic and diluted net income per share with respect to the conversion of the minority interests' OP Units outstanding at June 30, 2002 and 2001 into an additional 765,780 shares of Common Stock because the earnings of an OP Unit are equivalent to the earnings of a share of Common Stock.

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AEGIS REALTY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2002
(Unaudited)

Note 8 - Commitments and Contingencies

The Company is subject to routine litigation and administrative proceedings arising in the ordinary course of business. Management does not believe that such matters will have a material adverse impact on the Company's financial position, results of operations or cash flows.

Note 9 - Subsequent Event

In August 2002, a distribution of \$1,933,111 (\$.24 per share), which was declared in June 2002, was paid to the stockholders from cash flow from operations for the quarter ended June 30, 2002.

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

Liquidity and Capital Resources

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The Company requires long-term liquidity in order to invest in and maintain its portfolio of Retail Properties and other investments. To date, this long-term liquidity has come from proceeds from the Credit Facility, notes payable assumed upon the purchase of certain properties and the issuance of shares of the Company's Common Stock or OP Units in exchange for real estate. Although the Credit Facility may be increased, the Company's charter dictates leverage of no more than 50% of the Company's total market value. On a short-term basis, the Company requires funds to pay its operating expenses and those of the Retail Properties, to make improvements to the Retail Properties, pay its debt service and make distributions to its stockholders. The primary sources of the Company's short-term liquidity needs are the cash flow received from the Retail Properties.

In light of the decision to terminate the acquisition of POB, the Company, at the direction of the Board of Trustees, has retained Robertson Stephens to assist in developing an appropriate marketing strategy for the potential sale of the Company or its assets. If acceptable values cannot be achieved, the Board of Trustees will then pursue alternative strategies with the goal of maximizing stockholder value. The Company has discontinued its pursuit of additional investments and is focusing on the continuation of active management, leasing and redevelopment of the property portfolio in order to maintain the value of its portfolio upon a sale. While FleetBoston Financial announced a decision to wind down the investment banking operations of Robertson Stephens, a small group of employees, including the team assigned to the Company, will continue with the firm during a transition period, and will continue to advise the Company.

In order to maintain its REIT status, the Company is required to distribute at least 90% of its taxable income. Funds generated from operations are expected to be sufficient to allow the Company to meet this requirement.

The Advisor believes that the stability of the Company's operations and its ability to maintain liquidity are enhanced by the following factors:

- (i) Geographic diversity of its portfolio of real estate.
- (ii) 47% of total revenues for the six months ended June 30, 2002 were earned from shopping center anchor tenants which are national and/or credit tenants.
- (iii) No single asset accounts for more than 8% of total revenues for the six months ended June 30, 2002.
- (iv) Leases that provide for recovery of actual common area maintenance charges and real estate taxes, thereby minimizing any effects from inflation.
- (v) Leases that provide for increases in rents based on a percentage of tenants' sales.

During the six months ended June 30, 2002, cash and cash equivalents of the Company and its consolidated subsidiaries increased approximately \$1,039,000. This increase was primarily due to cash provided by operating activities, \$8,423,000 and net proceeds from notes payable, \$2,500,000, which exceed improvements to real estate (\$5,296,000), distributions paid to stockholders, (\$3,866,000) and distributions paid to minority interest (\$368,000). Included in the adjustments to reconcile the net income to cash provided by operating activities is depreciation and amortization in the amount of \$3,131,000.

The Company anticipates that cash generated from operations will provide for all

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major repairs, replacements and tenant improvements on its real estate and will provide sufficient liquidity to fund the Company's operating expenditures, debt service and distributions.

The Company has the following problem assets which may adversely affect future operations and liquidity:

(i) Safeway, the anchor tenant of Cactus Village Shopping Center closed its facility in December 1991 due to poor sales. Other than a small arrearage for a contractual increase in minimum rent, the tenant has abided by all aspects of its lease, which was to expire in September 2006. After negotiations with the Company, Safeway terminated its lease in June 2002 upon payment of \$750,000 to the Company.

(ii) In July 1994, A&P closed its store in the Mountain Park Plaza Shopping Center due to reduced sales and increased competition. The Company received rental payments from the vacated tenant pursuant to the terms of the lease. In December 2000, A&P bought out its lease for \$300,000 and the Company entered into a new lease with Publix. The former A&P space has been demolished and is under reconstruction as of June 30, 2002. The Company's cost to reconstruct this space totaled approximately \$4,147,000 (prior to tenant reimbursement of approximately \$662,000) of which approximately \$1,300,000 was paid in 2001. Publix opened its new store to the public on July 11, 2002.

(iii) White Oaks Plaza shopping center, located in Spindale, NC, was deemed to be impaired in the 4th quarter of 2001. In reaching such decision, the Company determined that it needed to analyze this property for potential impairment due to three anchors vacating their spaces and increased competition in the surrounding area. Two of these anchors, Walmart and Winn Dixie, are still paying rent and are current in their rent payments. Using undiscounted cash flows compared to the book value of approximately \$6.2 million resulted in a deficit, indicating impairment. The Company recognized a loss on impairment of \$2.5 million during the fourth quarter of 2001, resulting from comparing discounted cash flows (at a market discount rate for this type of property) to the book value.

(iv) Office Max, one of the anchor tenants of Town West which was under sublease, vacated its space in February 2000 but the original lessee is still obligated to pay rent. The lessee stopped paying rent in April 2001 and has been in default since that date. The Company has reserved 50% of the outstanding balance of \$136,783 at June 30, 2002 and has initiated legal proceedings. The Company feels its case is strong and will recover the full amount owed.

(v) Food Lion, located in Barclay Place, closed its store in December 2000. It is still obligated to pay rent through the expiration of its lease. To date, Food Lion is current with all rent payments.

(vi) The Company has been notified that K-Mart, which filed for bankruptcy, has closed its store located in the Centre Stage Shopping Center in Springfield, Tennessee and has rejected the lease as of June 29, 2002. The store has approximately 86,479 square feet of gross leasable area and represented approximately \$397,000 in annualized base rent. K-Mart has paid rent through June 30, 2002. The Company is currently negotiating with a credit tenant who is expected to lease 50,000 square feet. No impairment is indicated at this time.

In connection with the Credit Facility (Note 4), the Company must comply with various financial covenants including maximum loan to value ratios, interest and fixed charge coverage ratios, and net worth requirements. Since the second quarter of 2001, through the current quarter, the Company was in compliance with all covenants pertaining to this Credit Facility except one. The Company was not in compliance with a covenant requiring that aggregate distributions by the Company during any consecutive four quarters not exceed ninety percent of the

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Company's funds from operations ("FFO") for such period. Unlike the covenant provisions based on adjusted net income, under the covenant in question, the Company's FFO is not adjusted for extraordinary or nonrecurring items. As a result, FFO was significantly reduced by nonrecurring expenses related to the termination of the POB transaction (Note 1). The Company received a permanent waiver of this covenant from each of the syndicate banks of the Credit Facility for each of the quarters of non-compliance.

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In August 2002, a distribution of \$1,933,111 (\$.24 per share), which was declared in June 2002, was paid to the stockholders from cash flow from operations for the quarter ended June 30, 2002.

Management is not aware of any trends or events, commitments or uncertainties, which have not otherwise been disclosed that will or are likely to impact liquidity in a material way.

Results of Operations

Rental income increased approximately \$125,000 and \$239,000 for the three and six months ended June 30, 2002 as compared to 2001 primarily due to the increase of minimum rent at Southgate, Rolling Hills, Pablo Plaza and Westbird.

Tenant reimbursements increased approximately \$163,000 and \$355,000 for the three and six months ended June 30, 2002 as compared to 2001 due to the increase of the reimbursements of common charges at Westbird, Winery Square, Governors Square and Crossroads and the reimbursements of insurance for Pablo Plaza, Birdneck, Winery Square and Cactus Village.

Interest income decreased approximately \$397,000 and \$463,000 for the three and six months ended June 30, 2002 as compared to 2001 primarily due to the repayment of the Woodgate mortgage loan in April 2001.

Repairs and maintenance increased approximately \$89,000 and \$244,000 for the three and six months ended June 30, 2002 as compared to 2001 primarily due to an increase in miscellaneous maintenance costs of Westbird and Birdneck and painting costs at White Oak Plaza and Town West.

Operating expenses increased approximately \$5,000 and \$141,000 for the three and six months ended June 30, 2002 as compared to 2001 primarily due to the write-off of unamortized lease costs of Marketplace, Southgate and Governors Square and the legal expenses of Pablo Plaza, Rolling Hills and Mountain Park.

Interest expense decreased approximately \$279,000 and \$693,000 for the three and six months ended June 30, 2002 as compared to 2001, primarily due to the lower interest rate of the Credit Facility.

Early lease termination increased approximately \$718,000 for the six months ended June 30, 2002 as compared to 2001 due to the \$750,000 lease settlement with Safeway at Cactus Village.

Funds from Operations and Funds Available for Distribution

Funds from operations ("FFO"), represents income (or loss) before minority interest (computed in accordance with accounting principles generally accepted in the United States) ("GAAP"), excluding gains (or losses) from debt

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restructuring or repayments and sales of property, plus depreciation and amortization and including funds from operations for unconsolidated joint ventures calculated on the same basis. Income computed in accordance with GAAP includes straight-lining of property rentals for rent escalations in the amounts of \$43,799 and \$(4,347) and \$90,231 and \$11,079 for the three and six months ended June 30, 2002 and 2001, respectively. FFO is calculated in accordance with

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the National Association of Real Estate Investment Trusts ("NAREIT") definition. FFO does not represent cash generated from operating activities in accordance with GAAP which is disclosed in the Consolidated Statements of Cash Flows included in the financial statements for the applicable periods, and is not necessarily indicative of cash available to fund cash needs. There are no material legal or functional restrictions on the use of FFO. FFO should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Management considers FFO a supplemental measure of operating performance and along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs.

Funds available for distribution ("FAD") represents FFO plus recurring principal receipts from mortgage loans less reserves for lease commissions, recurring capital expenditures (excluding property acquisitions) and debt principal amortization. FAD should not be considered an alternative to net income as a measure of the Company's financial performance or to cash flow from operating activities (computed in accordance with GAAP) as a measure of the Company's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of the Company's needs.

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FFO, as calculated in accordance with the NAREIT definition, and FAD for the three and six months ended June 30, 2002 and 2001 are summarized in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Income (loss) before minority interest	\$ 2,215,768	\$ (661,891)	\$ 3,725,318	\$ 627,892
Depreciation and amortization of real property	1,378,800	1,338,914	2,712,106	2,622,193
Depreciation and amortization from equity investments	60,528	60,989	121,268	121,351
Funds From Operations ("FFO")	3,655,096	738,012	6,558,692	3,371,436
Amortization of deferred financing costs	220,964	189,148	418,929	373,072

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Principal payments received on mortgage loans	--	3,207,855	--	3,217,220
Straight-lining of property rentals for rent escalations	(43,799)	4,347	(90,231)	(11,079)
Improvements to real estate	(3,351,840)	(710,404)	(5,296,756)	(1,599,437)
Principal repayments on notes payable	(87,902)	(81,211)	(177,060)	(163,861)
Leasing commissions and costs	(107,783)	(54,375)	(252,044)	(93,647)
	-----	-----	-----	-----
Funds Available for Distribution ("FAD")	\$ 284,736	\$ 3,293,372	\$ 1,161,530	\$ 5,093,704
	=====	=====	=====	=====
Distributions to stockholders and minority interest	\$ 2,174,864	\$ 2,116,061	\$ 4,465,658	\$ 4,232,122
	=====	=====	=====	=====
FFO payout ratio	59.5%	286.7%	68.1%	125.5%
	=====	=====	=====	=====
Cash flows from:				
Operating activities	\$ 5,375,936	\$ 862,546	\$ 8,423,765	\$ 6,899,028
	=====	=====	=====	=====
Investing activities	\$ (3,345,560)	\$ 3,947,784	\$ (5,284,340)	\$ 690,270
	=====	=====	=====	=====
Financing activities	\$ (1,350,952)	\$ (2,190,035)	\$ (2,099,769)	\$ (2,898,412)
	=====	=====	=====	=====
Weighted average common shares and OP Units outstanding				
Basic	8,820,411	8,816,921	8,820,115	8,816,596
	=====	=====	=====	=====
Diluted	8,834,817	8,816,921	8,834,008	8,816,596
	=====	=====	=====	=====

Forward-Looking Statements

Certain statements made in this report may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by

such forward-looking statements. Such factors include, among other things, the following: general economic and business conditions, which will, among other things, affect the demand for retail space or retail goods, availability and creditworthiness of prospective tenants, lease rents and the terms and availability of financing; adverse changes in the real estate markets including, among other things, competition with other companies; risks of real estate

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development and acquisition; governmental actions and initiatives; and environment/safety requirements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Inflation

Inflation did not have a material effect on the Company's results for the periods presented.

Quantitative and Qualitative Disclosures About Market Risk

The debt financing used to raise capital for the acquisition of the Company's investments exposes the Company to fluctuations in market interest rates. Market interest rates are highly sensitive to many factors, including governmental policies, domestic and international political considerations and other factors beyond the control of the Company.

Cash flows from the Company's investments do not fluctuate with changes in market interest rates. In addition, as of June 30, 2002, approximately 35% of the Company's total notes payable outstanding are fixed rate notes, and so the payments on these instruments do not fluctuate with changes in market interest rates. In contrast, payments required under the Credit Facility vary based on market interest rates, primarily the 30 day Euro-contract rate. Thus, an increase in market interest rates would result in increased payments under the Credit Facility, without a corresponding increase in cash flows from the Company's investments in the same amounts. For example, based on the \$45,693,000 outstanding under the Credit Facility at June 30, 2002, the Company estimates that an increase of 1% in the 30 day Euro-contract rate would decrease the Company's annual net income by approximately \$457,000; a 2% increase in the 30 day Euro-contract rate would decrease annual net income by approximately \$914,000. For the same reasons, a decrease in market interest rates would generally benefit the Company, as a result of decreased payments under the Credit Facility without corresponding decreases in cash flows from the Company's investments. Various financial vehicles exist which would allow Company management to mitigate the impact of interest rate fluctuations on the Company's cash flows and earnings. Management may engage in such hedging strategies in the future, depending on management's analysis of the interest rate environment and the costs and risks of such strategies.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Part 1. Financial Statements - Note 8 which is incorporated herein by reference.

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

A proxy and proxy statement soliciting the vote of the Company's

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shareholders for the Company's annual meeting of shareholders was sent to shareholders on or about April 30, 2002. Such meeting was held on June 11, 2002. Alan Hirmes was re-elected trustee for a three-year term. The individual elected, and the number of votes cast for and abstaining is as follows:

	For	Abstain
	-----	-----
Alan P. Hirmes	6,403,847	231,053

Item 5. Other Information - None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

99.1 Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.3 Amendment of Management Agreement between the Company, Insured I, Insured II, the OP and the Property Manager dated October 1, 2001.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during this quarter.

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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.

AEGIS REALTY, INC.
(Registrant)

Date: August 14, 2002

By: /s/ Stuart J. Boesky

Stuart J. Boesky
Director, Chairman of the
Board, President and
Chief Executive Officer

Date: August 14, 2002

By: /s/ Alan Hirmes

Alan Hirmes
Chief Financial Officer

CERTIFICATION PURSUANT TO
18.U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Aegis Realty, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stuart J. Boesky, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Stuart J. Boesky

Stuart J. Boesky
Chief Executive Officer
August 14, 2002

CERTIFICATION PURSUANT TO
18.U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Aegis Realty, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan Hirmes, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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/s/ Alan Hirmes

Alan Hirmes
Chief Financial Officer
August 14, 2002

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Exhibit 99.3

AMENDMENT OF MANAGEMENT AGREEMENT

This AMENDMENT OF MANAGEMENT AGREEMENT, dated as of October 1, 2001 (this "Amendment") by and between AEGIS REALTY, INC., SUMMIT INSURED EQUITY L.P., SUMMIT INSURED EQUITY II L.P. and AEGIS REALTY OPERATING PARTNERSHIP, L.P. as ("OWNER") and RCC PROPERTY ADVISORS ("RCC"), a Florida General Partnership, by its General Partner, APH Associates, Inc. Capitalized terms not otherwise defined in this Amendment shall have the meanings ascribed to such terms in the Management Agreement (defined below).

W I T N E S S E T H :

WHEREAS, OWNER and RCC entered into that certain Management Agreement, dated October 1, 1997 (the "Management Agreement"), which Management Agreement is automatically renewed unless terminated by either party; and

WHEREAS, OWNER has announced that it has retained an investment advisor to assist OWNER in developing a marketing strategy to pursue a sale of the OWNER or its assets (the "Liquidation Proposal"); and

WHEREAS, OWNER's advisor, Related Aegis, Inc., sought to retain a third-party property manager to manage OWNER's portfolio following announcement of the Liquidation Proposal and determined that such property managers were unwilling to undertake such engagement without payment of (i) a termination fee equal to from 1% to 3% and (ii) property management fees substantially in excess of those currently charged by RCC; and

WHEREAS, OWNER desires to continue to retain RCC to provide property management and leasing services with respect to the PROJECTS for consideration which is not in excess of the market rates and terms for the areas in which the PROJECTS are located; and

WHEREAS, RCC desires to perform property management services and OWNER and RCC desire to amend the Management Agreement to reflect market rate compensation in light of the Liquidation Proposal.

NOW, THEREFORE, the Management Agreement is hereby amended as follows:

1. Section 9.01 and Section 9.02 of the Management Agreement is amended by replacing the existing Sections 9.01 and 9.02 with the following:

9.01 This Agreement shall commence on the 1st day of October 1997, and shall continue in full force and effect for an INITIAL TERM of one (1) year from such commencement date, and on and after October 1, 2001, shall be automatically extended for successive terms of three (3) years, unless either party elects not to extend the term by delivering written notice to the other party at least ninety (90) days prior to

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the expiration of the then existing term, or unless this Agreement is otherwise terminated as hereinafter provided.

9.02 RCC may terminate this Agreement after not less than thirty (30) days notice to OWNER.

2. New Section 9.07 is hereby added to the Management Agreement as follows:

9.07 Upon the transfer of title to the a PROJECT by OWNER to a person or entity that is independent of OWNER, either party may terminate this Agreement with respect to such PROJECT, provided, however, that in the event OWNER terminates this Agreement, OWNER shall pay RCC a fee equal to 1.00% of the gross sales price of the PROJECT(S) sold; and provided further, that if OWNER executes a contract for sale or option to sell a PROJECT, OWNER shall forthwith notify RCC in writing that said contract has been executed and as to the approximate closing date.

3. Except as otherwise modified by this Amendment, the Management Agreement remains unchanged and is in all respects ratified and confirmed.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have caused this Amendment to be executed as of the day and year first above written.

OWNER: AEGIS REALTY, INC.:

By: /s/ Stuart J. Boesky

Stuart J. Boesky

OWNER: SUMMIT INSURED EQUITY L.P.

By: /s/ Stuart J. Boesky

Stuart J. Boesky

OWNER: SUMMIT INSURED EQUITY II, L.P.

By: /s/ Stuart J. Boesky

Stuart J. Boesky

OWNER: AEGIS REALTY OPERATING PARTNERSHIP, L.P.

By: /s/ Stuart J. Boesky

Stuart J. Boesky

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RCC PROPERTY ADVISORS, a Florida
Partnership

By: APH ASSOCIATES, INC., a
General Partner

By: /s/ Alan Hirmes

Alan Hirmes