

Edgar Filing: IRT PROPERTY CO - Form 10-Q

IRT PROPERTY CO  
Form 10-Q  
November 13, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2001  
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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 1-7859

IRT PROPERTY COMPANY  
-----

(Exact name of registrant as specified in its charter)

Georgia

58-1366611

-----  
(State or other jurisdiction of  
incorporation or organization)

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

200 Galleria Parkway, Suite 1400  
Atlanta, Georgia

30339

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(770) 955-4406

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

N/A

-----  
(Former name, former address and former fiscal year,  
if changed since last report)

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  No

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

Class Outstanding at November 13, 2001

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-----  
Common Stock, \$1 Par Value

-----  
30,489,489 Shares

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CERTAIN INFORMATION CONTAINED IN THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS, WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. READERS OF THIS REPORT SHOULD BE AWARE THAT THERE ARE VARIOUS FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM ANY FORWARD-LOOKING STATEMENTS MADE HEREIN. THIS INFORMATION IS FURTHER QUALIFIED BY THE SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS AND THE INFORMATION IN THE SECTION ENTITLED "RISK FACTORS" CONTAINED IN THE IRT PROPERTY COMPANY ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2000, WHICH ARE INCORPORATED HEREIN BY REFERENCE.

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## Item 1. Financial Statements

IRT PROPERTY COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except share and per share amounts)

	September 30, 2001	December 2000
	----- (Unaudited)	-----
<b>ASSETS</b>		
Real estate investments:		
Rental properties	\$ 645,449	\$ 632,
Properties under development	15,110	
	-----	-----
	660,559	633,
Accumulated depreciation	(105,603)	(96,
	-----	-----
Net rental properties	554,956	536,
Equity investment in and advances to unconsolidated affiliates	-	17,
Net investment in direct financing leases	2,207	4,
Mortgage loans, net	4,735	4,
	-----	-----
Net real estate investments	561,898	562,
Cash and cash equivalents	1,562	
Prepaid expenses and other assets	13,028	10,
	-----	-----
Total assets	\$ 576,488	\$ 574,
	=====	=====

## LIABILITIES & SHAREHOLDERS' EQUITY

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Liabilities:

Mortgage notes payable, net	\$	135,359	\$	116,
7.3% convertible subordinated debentures, net		23,275		23,
Senior notes, net		124,750		124,
Indebtedness to banks		36,000		55,
Accrued interest		2,850		3,
Accrued expenses and other liabilities		11,854		8,
		-----		-----
Total liabilities		334,088		331,
Commitments and contingencies (Note 11)				
Minority interest payable		7,815		7,
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,
Additional paid-in capital		272,145		272,
Deferred compensation/stock loans		(1,762)		(1,
Treasury stock, at cost, 2,746,717 and 2,889,276 shares in 2001 and 2000, respectively		(22,818)		(23,
Cumulative distributions in excess of net earnings		(46,214)		(44,
		-----		-----
Total shareholders' equity		234,585		235,
		-----		-----
Total liabilities and shareholders' equity	\$	576,488	\$	574,
		=====		=====

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 Three and Nine Months Ended September 30, 2001 and 2000  
(Unaudited)  
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
REVENUES:				
Income from rental properties	\$21,463	\$21,333	\$63,983	\$63,37
Interest income	92	287	372	76
Interest on direct financing leases	51	118	335	41
Gain on sale of outparcel	258	-	1,003	
	-----	-----	-----	-----
Total revenues	21,864	21,738	65,693	64,56

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EXPENSES:				
Operating expenses of rental properties	5,241	4,914	15,929	14,700
Interest expense	5,723	5,499	17,202	16,300
Depreciation	3,826	3,800	11,348	10,910
Amortization of debt costs	165	133	477	390
General and administrative	1,076	1,132	3,159	2,800
	-----	-----	-----	-----
Total expenses	16,031	15,478	48,115	45,110
Equity in loss of unconsolidated affiliates	-	(16)	(4)	(5)
	-----	-----	-----	-----
Earnings before income taxes, minority interest and gain on sales of properties	5,833	6,244	17,574	19,390
Income tax provision	-	-	(53)	
Minority interest of unitholders in operating partnership	(117)	(143)	(422)	(450)
Gain on sales of properties	-	644	2,498	3,380
	-----	-----	-----	-----
NET EARNINGS	\$ 5,716	\$ 6,745	\$19,597	\$22,310
	=====	=====	=====	=====
PER SHARE:				
Net earnings -- basic	\$ 0.19	\$ 0.21	\$ 0.65	\$ 0.70
	=====	=====	=====	=====
Net earnings -- diluted	\$ 0.19	\$ 0.21	\$ 0.64	\$ 0.68
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	30,388	31,408	30,294	31,820
	=====	=====	=====	=====
Diluted	31,339	32,255	31,191	34,720
	=====	=====	=====	=====

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

IRT PROPERTY COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Nine Months Ended September 30, 2001 and 2000  
(Unaudited)  
(In thousands)

	Nine Months Ended September 30,	
	-----	-----
	2001	2000
	-----	-----
Cash flows from operating activities:		

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Net earnings	\$ 19,597	\$ 22,318
Adjustments to reconcile earnings to net cash from operating activities:		
Depreciation	11,348	10,910
Gain on sale of operating properties	(2,498)	(3,382)
Gain on sale of outparcels	(1,003)	-
Minority interest of unitholders in partnership	(153)	(117)
Straight line rent adjustment	(370)	(83)
Amortization of deferred compensation	88	93
Amortization of debt costs and discounts	501	399
Amortization of capitalized leasing income	119	117
Changes in assets and liabilities:		
Decrease in accrued interest on debentures and senior notes	(762)	-
Increase in interest receivable, prepaid expenses and other assets	(882)	(2,004)
Increase in accrued expenses and other liabilities	2,472	1,728
	-----	-----
Net cash flows from operating activities	28,457	29,979
	-----	-----
Cash flows used in investing activities:		
Additions to operating properties, net	(12,143)	(5,917)
Additions to development properties, net	(6,451)	-
Proceeds from sales of operating properties, net	11,260	12,446
Proceeds from sale of outparcels, net	1,330	-
Investment in unconsolidated affiliates	-	(4,392)
Purchase of unconsolidated affiliate, net of assets acquired	177	-
Distribution from dissolution of unconsolidated affiliate	21	-
Funding of mortgage loans	(445)	(3,072)
Collections of mortgage loans, net	23	7
	-----	-----
Net cash flows used in investing activities	(6,228)	(928)
	-----	-----
Cash flows used in financing activities:		
Cash dividends, net	(21,422)	(22,180)
Purchase of treasury stock	(405)	(13,272)
Exercise of stock options	1,561	172
Proceeds from mortgage notes payable	20,740	-
Principal amortization of mortgage notes payable	(1,890)	(1,546)
Repayment of mortgage notes payable	-	(3,520)
Proceeds from 7.77% senior notes issuance	50,000	-
Repayment of 7.45% senior notes	(50,000)	-
Increase (decrease) in bank indebtedness	(19,000)	10,823
Payment of deferred financing costs	(1,082)	-
	-----	-----
Net cash flows used in financing activities	(21,498)	(29,523)
	-----	-----
Net increase (decrease) in cash and cash equivalents	731	(472)
Cash and cash equivalents at beginning of period	831	514
	-----	-----
Cash and cash equivalents at end of period	\$ 1,562	\$ 42
	=====	=====
Supplemental disclosures of cash flow information:		
Total cash paid during period for interest	\$ 18,887	\$ 17,111
	=====	=====

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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  
September 30, 2001 and 2000  
(Dollars in thousands, except per share amounts)

1. Unaudited Financial Statements

These consolidated financial statements for interim periods are unaudited and should be read in conjunction with the Company's Report on Form 10-K for the year ended December 31, 2000. The accompanying consolidated financial statements include the accounts of IRT Property Company and its wholly-owned subsidiaries, IRT Management Company ("IRTMC"), VW Mall, Inc., IRT Alabama, Inc. ("IRTAL") and IRT Capital Corporation II ("IRTCCII"), and its majority-owned subsidiary, IRT Partners L.P. ("LP") (collectively, the "Company"). Intercompany transactions and balances have been eliminated in the consolidation. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to a fair presentation of the financial statements as of September 30, 2001 and 2000 have been recorded. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for future interim periods or for the full year.

As of December 31, 2000, the Company's investment in IRT Capital Corporation ("IRTCC") and IRTCCII was accounted for under the equity method of accounting. In January 2001, IRTCC was dissolved and the Company's investment in IRTCC was eliminated. In March 2001, the Company purchased the remaining voting and non-voting common stock of IRTCCII, making IRTCCII a wholly-owned subsidiary. See Note 9.

2. Investment in and Advances to Unconsolidated Affiliates

As of September 30, 2001, LP, IRTCCII, IRTAL and IRTMC guaranteed the Company's indebtedness under the Company's existing unsecured revolving term loan and its other senior debt. The guarantees are joint and several and full and unconditional.

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		GUARANTORS	
	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES (1)	IRT PARTNERS, L
AS OF SEPTEMBER 30, 2001			
ASSETS			
Net rental properties	\$ 391,249	\$ 26,179	\$ 137,52
Investment in affiliates	115,414	-	
Other assets	37,753	30,569	24,73

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Total assets	544,416	56,748	162,26
<u>=====</u>			
LIABILITIES			
Mortgage notes payable	93,602	4,113	37,64
Senior Notes, net	124,750	-	
Indebtedness to banks	36,000	-	
Other liabilities	83,871	22,492	3,14
<u>-----</u>			
Total liabilities	338,223	26,605	40,78
<u>-----</u>			
SHAREHOLDERS' EQUITY			
Total shareholders' equity	206,193	30,143	121,47
<u>-----</u>			
Total liabilities and shareholders' equity	\$ 544,416	\$ 56,748	\$ 162,26
<u>=====</u>			

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001

REVENUES			
Income from rental properties	\$ 15,199	\$ 322	\$ 5,94
Interest Income	190	-	15
Interest on direct financing leases	51	-	
Other income	284	2,477	
<u>-----</u>			
Total revenues	15,724	2,799	6,10
<u>-----</u>			
EXPENSES			
Operating expenses of rental properties	3,636	82	1,52
Interest expense	5,054	193	73
Depreciation	2,809	63	95
Amortization of debt costs	161	1	
General and administrative	746	62	26
<u>-----</u>			
Total expenses	12,406	401	3,48
<u>-----</u>			
Equity in earnings (losses) of affiliates	2,398	-	
<u>-----</u>			
Earnings before income taxes, minority interest and gain on sales of properties	5,716	2,398	2,62
Minority interest in operating partnership	-	-	
<u>-----</u>			
Net Earnings	\$ 5,716	\$ 2,398	\$ 2,62
<u>=====</u>			

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001

REVENUES			
Income from rental properties	\$ 45,498	\$ 945	\$ 17,54
Interest Income	899	-	32
Interest on direct financing leases	335	-	

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Other income	327	8,888	29
	-----	-----	-----
Total revenues	47,059	9,833	18,16
	-----	-----	-----
EXPENSES			
Operating expenses of rental properties	11,088	218	4,62
Interest expense	15,534	479	2,04
Depreciation	8,312	153	2,88
Amortization of debt costs	469	2	
General and administrative	2,223	170	76
	-----	-----	-----
Total expenses	37,626	1,022	10,31
	-----	-----	-----
Equity in earnings (losses) of affiliates	8,758	-	
	-----	-----	-----
Earnings before income taxes, minority interest and gain on sales of properties	18,191	8,811	7,84
Income tax provision	-	(53)	
Minority interest in operating partnership	-	-	
Gain on sales of properties	1,390	-	1,10
	-----	-----	-----
Net Earnings	\$ 19,581	\$ 8,758	\$ 8,95
	=====	=====	=====
Net cash flows provided by (used in) operating activities	\$ 19,796	\$ 7,738	\$ 10,66
	=====	=====	=====
Net cash flows (used in) provided by investing activities	\$ (2,481)	\$ (2,589)	\$ (1,84
	=====	=====	=====
Net cash flows (used in) provided by financing activities	\$ (11,172)	\$ (4,918)	\$ (14,46
	=====	=====	=====

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	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES (1)	IRT PARTNERS, L
	-----	-----	-----
AS OF DECEMBER 31, 2000			
ASSETS			
Net rental properties	\$ 394,144	\$ 5,575	\$ 137,11
Investment in affiliates	127,364	-	
Other assets	29,444	21,720	8,70



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Total assets	550,952	27,295	145,81
<b>LIABILITIES</b>			
Mortgage notes payable	81,741	4,173	30,59
Senior Notes, net	124,714	-	
Indebtedness to banks	55,000	-	
Other liabilities	54,344	1,319	8,32
Total liabilities	315,799	5,492	38,91
<b>SHAREHOLDERS' EQUITY</b>			
Total shareholders' equity	235,153	21,803	106,89
Total liabilities and shareholders' equity	\$ 550,952	\$ 27,295	\$ 145,81
<b>FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000</b>			
<b>REVENUES</b>			
Income from rental properties	\$ 16,113	\$ 171	\$ 5,04
Interest Income	217	-	7
Interest on direct financing leases	118	-	
Other income	20	1,846	
Total revenues	16,468	2,017	5,11
<b>EXPENSES</b>			
Operating expenses of rental properties	3,527	30	1,35
Interest expense	4,822	68	60
Depreciation	2,908	19	87
Amortization of debt costs	132	1	
General and administrative	860	1	27
Total expenses	12,249	119	3,11
Equity in earnings (losses) of affiliates	1,881	-	
Earnings before minority interest and gain on sales of properties	6,100	1,898	2,00
Minority interest in operating partnership	-	-	
Gain on sales of properties	644	-	
Net Earnings	\$ 6,744	\$ 1,898	\$ 2,00
<b>FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000</b>			
<b>REVENUES</b>			

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Income from rental properties	\$ 47,647	\$ 508	\$ 15,22
Interest Income	463	-	30
Interest on direct financing leases	416	-	
Other income	64	5,920	
	-----	-----	-----
Total revenues	48,590	6,428	15,52
	-----	-----	-----
EXPENSES			
Operating expenses of rental properties	10,623	94	3,99
Interest expense	14,260	206	1,83
Depreciation	8,234	57	2,61
Amortization of debt costs	397	2	
General and administrative	2,156	3	64
	-----	-----	-----
Total expenses	35,670	362	9,08
	-----	-----	-----
Equity in earnings (losses) of affiliates	6,014	-	
	-----	-----	-----
Earnings before minority interest and gain on sales of properties	18,934	6,066	6,44
Minority interest in operating partnership	-	-	
Gain on sales of properties	3,382	-	
	-----	-----	-----
Net Earnings	\$ 22,316	\$ 6,066	\$ 6,44
	=====	=====	=====
Net cash flows provided by (used in) operating activities	\$ 16,465	\$ 5,827	\$ 8,45
	=====	=====	=====
Net cash flows provided by (used in) investing activities	\$ 7,816	\$ -	\$ (2,30)
	=====	=====	=====
Net cash flows (used in) provided by financing activities	\$ (28,602)	\$ (5,813)	\$ (2,29)
	=====	=====	=====
	IRT CAPITAL CORPORATION I	ELIMINATING ENTRIES	CONSOLIDATED IRT PROPERTY COMPANY
	-----	-----	-----
AS OF DECEMBER 31, 2000			
ASSETS			
Net rental properties	\$ -	\$ (17,989)	\$ 536,833
Investment in affiliates	-	(110,022)	17,342
Other assets	31	(39,907)	20,385
	-----	-----	-----
Total assets	31	(167,918)	574,560
	=====	=====	=====
LIABILITIES			

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Mortgage notes payable	-	-	116,509
Senior Notes, net	-	-	124,714
Indebtedness to banks	-	-	55,000
Other liabilities	2	(39,197)	43,184
	-----	-----	-----
Total liabilities	2	(39,197)	339,407
	-----	-----	-----
SHAREHOLDERS' EQUITY			
Total shareholders' equity	29	(128,721)	235,153
	-----	-----	-----
Total liabilities and shareholders' equity	\$ 31	\$ (167,918)	\$ 574,560
	=====	=====	=====

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000

REVENUES			
Income from rental properties	\$ -	\$ (21)	\$ 21,333
Interest Income	-	-	287
Interest on direct financing leases	-	-	118
Other income	-	(1,866)	-
	-----	-----	-----
Total revenues	-	(1,887)	21,738
	-----	-----	-----
EXPENSES			
Operating expenses of rental properties	-	(21)	4,914
Interest expense	-	-	5,499
Depreciation	-	(7)	3,800
Amortization of debt costs	-	-	133
General and administrative	1	(10)	1,132
	-----	-----	-----
Total expenses	1	(38)	15,478
	-----	-----	-----
Equity in earnings (losses) of affiliates	-	(1,897)	(16)
	-----	-----	-----
Earnings before minority interest and gain on sales of properties	(1)	(3,746)	6,244
Minority interest in operating partnership	-	(143)	(143)
Gain on sales of properties	-	-	644
	-----	-----	-----
Net Earnings	\$ (1)	\$ (3,889)	\$ 6,745
	=====	=====	=====

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000

REVENUES			
Income from rental properties	\$ -	\$ (96)	\$ 63,379
Interest Income	-	-	767
Interest on direct financing leases	-	-	416
Other income	-	(5,984)	-
	-----	-----	-----

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Total revenues	-	(6,080)	64,562
-----			
EXPENSES			
Operating expenses of rental properties	-	(68)	14,707
Interest expense	-	-	16,301
Depreciation	-	(22)	10,910
Amortization of debt costs	-	-	399
General and administrative	5	(58)	2,800
-----			
Total expenses	5	(148)	45,117
-----			
Equity in earnings (losses) of affiliates	-	(6,064)	(50)
-----			
Earnings before minority interest and gain on sales of properties	(5)	(11,996)	19,395
Minority interest in operating partnership	-	(459)	(459)
Gain on sales of properties	-	-	3,382
-----			
Net Earnings	\$ (5)	\$ (12,455)	\$ 22,318
=====			
Net cash flows provided by (used in) operating activities	\$ (3)	\$ (653)	\$ 29,979
=====			
Net cash flows provided by (used in) investing activities	\$ -	\$ 350	\$ (928)
=====			
Net cash flows (used in) provided by financing activities	\$ -	\$ 248	\$ (29,523)
=====			