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IRT PROPERTY CO
Form 10-Q
November 12, 2002

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, 2002

OR

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

For the Transition Period From _____ to _____

Commission File Number 1-7859

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 8, 2002

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Common Stock, \$1 Par Value

34,199,736 Shares

1

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for IRT Property Company (the "Company"), including, but not limited to, the section herein entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," may contain various "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, that are based on the Company's beliefs and assumptions, as well as information currently available to the Company. Readers can identify these forward-looking statements through the Company's use of words such as "may," "will," "intend," "project," "would," "could," "should," "expect," "anticipate," "assume," "believe," "estimate," "continue" or other similar words. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may be beyond the Company's control. The Company's actual results may differ significantly from those expressed or implied in such forward-looking statements. Factors that might cause these differences include, but are not limited to:

- changes in tax laws or regulations, especially those relating to real estate investment trusts and real estate in general;
- the number, frequency and duration of vacancies that the Company experiences;
- the Company's ability to solicit new tenants and to obtain lease renewals from existing tenants on terms that are favorable to the Company;
- tenant bankruptcies and closings;
- the general financial condition of, or possible mergers or acquisitions involving, the Company's tenants and competitors;
- competition;
- changes in interest rates and national and local economic conditions;
- possible environmental liabilities;
- the availability, cost and terms of financing;
- the Company's ability to identify, acquire, construct or develop additional properties that result in the returns anticipated or sought; and
- the Company's ability to effectively integrate properties or portfolio acquisitions or other mergers or acquisitions.

Readers should not rely on the information contained in any forward-looking statements and should not expect the Company to update or revise any forward-looking statements. With respect to such forward-looking statements, the Company claims protection under the Private Securities Litigation Reform Act of 1995. The information in this Report, including the information contained in forward-looking statements, is also qualified by the special cautionary notice regarding forward-looking statements and the information in the section entitled "Risk Factors" contained in the Company's Annual Report on Form 10-K for the

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year ended December 31, 2001 and other filings that the Company makes with the Securities and Exchange Commission, which are incorporated herein by reference. The documents that the Company files with the Securities and Exchange Commission are available from the Company, and also may be examined at public reference facilities maintained by the Securities and Exchange Commission or, to the extent filed via EDGAR, accessed through the Internet website of the Securities and Exchange Commission (<http://www.sec.gov>).

2

ITEM 1. FINANCIAL STATEMENTS

IRT PROPERTY COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	September 30, 2002	December 31, 2001
	-----	-----
ASSETS		
Real estate investments:		
Rental properties	\$ 679,383	\$ 659,820
Properties under development	15,901	22,599
	-----	-----
Accumulated depreciation	695,284 (119,673)	682,419 (109,344)
	-----	-----
Net rental properties	575,611	573,075
Net investment in direct financing leases	2,070	2,174
Mortgage loans, net	60	1,160
	-----	-----
Net real estate investments	577,741	576,409
Cash and cash equivalents	-	2,457
Prepaid expenses and other assets	14,695	11,634
	-----	-----
Total assets	\$ 592,436	\$ 590,500
	=====	=====
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable, net	\$ 130,196	\$ 134,672
7.3% convertible subordinated debentures, net	-	23,275
Senior notes, net	149,792	124,760
Indebtedness to banks	17,000	51,654
Accrued interest	3,798	4,598
Accrued expenses and other liabilities	13,990	10,652
	-----	-----
Total liabilities	314,776	349,611
Commitments and contingencies (Note 8)		

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Minority interest payable	7,719	7,755
Shareholders' equity:		
Preferred stock, \$1 par value, authorized 10,000,000 shares; none issued	-	-
Common stock, \$1 par value, 150,000,000 shares authorized; 34,197,736 and 33,234,206 shares issued in 2002 and 2001, respectively	34,198	33,234
Additional paid-in capital	289,695	272,172
Deferred compensation/stock loans	(3,495)	(1,732)
Treasury stock, at cost, 0 and 2,738,204 shares in 2002 and 2001, respectively	-	(22,783)
Cumulative distributions in excess of net earnings	(50,457)	(47,757)
	-----	-----
Total shareholders' equity	269,941	233,134
	-----	-----
Total liabilities and shareholders' equity	\$ 592,436	\$ 590,500
	=====	=====

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

3

IRT PROPERTY COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
REVENUES:				
Income from rental properties	\$22,542	\$21,255	\$66,989	\$63,111
Interest income	13	92	47	111
Interest on direct financing leases	47	51	218	111
Gain on sale of outparcels	(7)	258	498	1,111
	-----	-----	-----	-----
Total revenues	22,595	21,656	67,752	65,544
	-----	-----	-----	-----
EXPENSES:				
Operating expenses of rental properties	5,969	5,203	17,204	15,111
Interest expense	5,369	5,719	16,472	17,111
Depreciation	3,889	3,790	11,656	11,111
Amortization of debt costs	186	165	490	311
General and administrative	974	1,076	3,226	3,111
	-----	-----	-----	-----

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Total expenses	16,387	15,953	49,048	47
EQUITY IN LOSS OF UNCONSOLIDATED AFFILIATES	-	-	-	-
Income from continuing operations before income taxes, minority interest, gain on sale of property and discontinued operations	6,208	5,703	18,704	17
INCOME TAX PROVISION	-	-	(9)	
MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP	(126)	(109)	(396)	
GAIN ON SALES OF PROPERTIES	-	-	-	2
Income from continuing operations	6,082	5,594	18,299	19
DISCONTINUED OPERATIONS				
Income from discontinued operations, net of minority interest	88	122	295	
Gain on sales of properties, net of minority interest	2,062	-	2,062	
Income from discontinued operations	2,150	122	2,357	
Income before extraordinary item	8,232	5,716	20,656	19
EXTRAORDINARY ITEM				
Loss on extinguishment of debt	-	-	(156)	
NET INCOME	\$ 8,232	\$ 5,716	\$20,500	\$19
PER SHARE: (Note 11)				
Income from continuing operations - basic	\$ 0.18	\$ 0.19	\$ 0.57	\$
Income from discontinued operations - basic	0.06	-	0.07	
Income before extraordinary item	0.24	0.19	0.64	
Extraordinary item - basic	-	-	(0.01)	
Net earnings - basic	\$ 0.24	\$ 0.19	\$ 0.63	\$
Income from continuing operations - diluted	\$ 0.18	\$ 0.19	\$ 0.57	\$
Income from discontinued operations - diluted	0.06	-	0.07	
Income before extraordinary item	0.24	0.19	0.64	
Extraordinary item - diluted	-	-	(0.01)	
Net earnings - diluted	\$ 0.24	\$ 0.19	\$ 0.63	\$
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	33,973	30,388	32,360	30
Diluted	34,176	31,339	32,551	31

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

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4

IRT PROPERTY COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001
 (UNAUDITED)
 (IN THOUSANDS)

	Nine Months Ended September 30,	
	2002	2001
Cash flows from operating activities:		
Net earnings	\$ 20,500	\$ 19,597
Adjustments to reconcile earnings to net cash from operating activities:		
Depreciation	11,768	11,348
Gain on sale of operating properties	(2,185)	(2,498)
Gain on sale of outparcels	(498)	(1,003)
Extraordinary loss on extinguishment of debt	156	-
Minority interest of unitholders in partnership	(37)	(153)
Straight line rent adjustment	(496)	(370)
Amortization of deferred compensation	152	88
Amortization of debt costs and discounts	510	501
Amortization of capitalized leasing income	104	119
Changes in assets and liabilities:		
Decrease in accrued interest on debentures and senior notes	(660)	(762)
Increase in interest receivable, prepaid expenses and other assets	(2,431)	(882)
Increase in accrued expenses and other liabilities	3,205	2,472
	30,088	28,457
Net cash flows from operating activities		
Cash flows used in investing activities:		
Additions to operating properties, net	(5,720)	(12,143)
Additions to development properties, net	(7,851)	(6,451)
Proceeds from sale of operating properties, net	6,513	11,260
Proceeds from sale of outparcels, net	1,084	1,330
Purchase of unconsolidated affiliate, net of assets acquired	-	177
Distribution from dissolution of unconsolidated affiliate	-	21
Funding of mortgage loans	-	(445)
Collections of mortgage loans, net	253	23
	(5,721)	(6,228)
Net cash flows used in investing activities		
Cash flows used in financing activities:		
Cash dividends, net	(23,200)	(21,422)
Issuance of common stock, net	38,508	-
Purchase of treasury stock	-	(405)
Exercise of stock options	657	1,561
Issuance of shares under stock purchase plan	30	-
Proceeds from mortgage notes payable	-	20,740

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Principal amortization of mortgage notes payable	(2,091)	(1,890)
Repayment of mortgage notes payable	(7,186)	-
Proceeds from 7.84% senior notes issuance	25,000	-
Proceeds from 7.77% senior notes issuance	-	50,000
Repayment of 7.3% convertible subordinated debentures	(23,110)	-
Repayment of 7.45% senior notes	-	(50,000)
Decrease in bank indebtedness	(34,654)	(19,000)
Payment of deferred financing costs	(778)	(1,082)
	-----	-----
Net cash flows used in financing activities	(26,824)	(21,498)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(2,457)	731
Cash and cash equivalents at beginning of period	2,457	831
	-----	-----
Cash and cash equivalents at end of period	\$ -	\$ 1,562
	=====	=====
Supplemental disclosures of cash flow information:		
Total cash paid during period for interest	\$ 17,816	\$ 18,887
	=====	=====

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

5

IRT PROPERTY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2002 AND 2001
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. UNAUDITED FINANCIAL STATEMENTS

These condensed consolidated financial statements for interim periods are unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2001. The accompanying condensed 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, 2002 and 2001 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.

2. RENTAL PROPERTIES

The rental properties acquired and disposed in 2002 are summarized below.

SHOPPING CENTER ACQUISITIONS

Date Acquired	Property Name	City, State	Square Footage	Year Built/ Renovated	% Leased at Acquisition	Total Initial Cost	Cash
---------------	---------------	-------------	----------------	--------------------------	----------------------------	-----------------------	------

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 2/19/02 Parkwest Crossing Durham, NC 85,602 1991 100% \$ 6,620 \$ 1,

SHOPPING CENTER DISPOSITIONS

Date Sold	Property Name	City, State	Square Footage	Sales Price	Net Proceeds	Gain (Loss)
9/25/02	Forest Hills Centre	Wilson, NC	74,180	\$ 6,850	\$ 6,513	\$ 2,062 (1)

(1) Net of \$123 of minority interest

In connection with the acquisition of Parkwest Crossing, the Company assumed a \$4,800, 8.1% mortgage. See Note 5.

On September 26, 2002, the Company entered into a sale agreement for Lawrence Commons in Lawrenceburg, TN, to close in the fourth quarter of 2002. This property is not classified as held for sale within the Condensed Consolidated Balance Sheets due to the buyer's unconditional right to terminate the agreement for sixty days after the date of the agreement.

6

3. DEVELOPMENT AGREEMENTS

The Company enters into agreements to develop shopping centers with local developers. The agreements generally consist of the Company committing to loan a fixed amount, at a specified interest rate, for the development of the shopping center with the possibility of the Company then purchasing the center upon the developer meeting certain budgetary and leasing requirements. The loan is secured by the development property and due upon completion. The developer is responsible for all construction matters as well as initial leasing efforts.

Additionally, the Company could enter into a separate agreement to purchase the completed shopping center. Generally, the purchase price to the Company is based on the shopping center's net operating income and an implied rate of return at the time when the developer meets the specified requirements. As of September 30, 2002, the Company has no such purchase commitments.

The Company is involved in one development loan, Freehome Village, a 89,270 square foot shopping center. As of September 30, 2002, the Company has loaned \$925 for development and the shopping center should be completed in 2003. Beginning in the second quarter, the Company changed its treatment to account for the development loan as a property under development in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2002. As of December 31, 2001, this development loan had been considered as a mortgage loan. Management believes the effect on prior periods is not significant.

7

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4. INVESTMENT IN AND ADVANCES TO AFFILIATES

As of September 30, 2002, 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. The following tables show IRTCCII, IRTAL and IRTMC as "Combined Subsidiaries."

	GUARANTORS			EL
	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES	IRT PARTNERS, LP	
AS OF SEPTEMBER 30, 2002				
ASSETS				
Net rental properties	\$ 398,705	\$ 29,172	\$ 147,734	\$
Investment in affiliates	124,109	-	-	-
Other assets	35,951	43,137	26,339	-
	-----	-----	-----	-----
Total assets	558,765	72,309	174,073	=
	=====	=====	=====	=====
LIABILITIES				
Mortgage notes payable	84,485	4,030	41,681	-
Senior Notes, net	149,792	-	-	-
Indebtedness to banks	17,000	-	-	-
Other liabilities	78,711	24,017	3,668	-
	-----	-----	-----	-----
Total liabilities	329,988	28,047	45,349	-
	-----	-----	-----	-----
SHAREHOLDERS' EQUITY				
Total shareholders' equity	228,777	44,262	128,724	-
	-----	-----	-----	-----
Total liabilities and shareholders' equity	\$ 558,765	\$ 72,309	\$ 174,073	\$
	=====	=====	=====	=====

	GUARANTORS			E
	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES	IRT PARTNERS, LP	
AS OF DECEMBER 31, 2001				
ASSETS				
Net rental properties	\$ 399,312	\$ 28,138	\$ 145,625	\$
Investment in affiliates	122,168	-	-	-
Other assets	35,677	33,488	21,248	-
	-----	-----	-----	-----

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Total assets	557,157	61,626	166,873	
	=====	=====	=====	=====
LIABILITIES				
Mortgage notes payable	93,115	4,093	37,464	
Senior Notes, net	124,760	-	-	
Indebtedness to banks	51,654	-	-	
Other liabilities	84,928	24,431	2,154	
	-----	-----	-----	-----
Total liabilities	354,457	28,524	39,618	
	-----	-----	-----	-----
SHAREHOLDERS' EQUITY				
Total shareholders' equity	202,700	33,102	127,255	
	-----	-----	-----	-----
Total liabilities and shareholders' equity	\$ 557,157	\$ 61,626	\$ 166,873	\$
	=====	=====	=====	=====

8

	GUARANTORS		
	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES	IRT PARTNERS, L
	-----	-----	-----
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002			
REVENUES			
Income from rental properties	\$ 15,922	\$ 639	\$ 5,9
Interest Income	121	-	
Interest on direct financing leases	47	-	
Other income	41	4,265	
	-----	-----	-----
Total revenues	16,131	4,904	6,0
	-----	-----	-----
EXPENSES			
Operating expenses of rental properties	4,113	166	1,6
Interest expense	4,556	186	8
Depreciation	2,829	55	1,0
Amortization of debt costs	180	1	
General and administrative	603	110	2
	-----	-----	-----
Total expenses	12,281	518	3,7
	-----	-----	-----
Equity in earnings (losses) of affiliates	-	-	
	-----	-----	-----
Earnings from continuing operations before income taxes, minority interest, gain on sales of properties and discontinued operations	3,850	4,386	2,2

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Income tax provision	-	-	
Minority interest in operating partnership	126	-	
Gain on sales of properties	-	-	
	-----	-----	-----
Income from continuing operations before discontinued operations and extraordinary item	3,976	4,386	2,2
Income from discontinued operations	(131)	-	2,2
Extraordinary item - loss on extinguishment of debt	-	-	
	-----	-----	-----
Net income	\$ 3,845	\$ 4,386	\$ 4,5
	=====	=====	=====

GUARANTORS

	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES	IRT PARTNERS, L
	-----	-----	-----
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001			
REVENUES			
Income from rental properties	\$ 15,199	\$ 322	\$ 5,7
Interest Income	190	-	1
Interest on direct financing leases	51	-	
Other income	284	2,477	
	-----	-----	-----
Total revenues	15,724	2,799	5,8
	-----	-----	-----
EXPENSES			
Operating expenses of rental properties	3,636	82	1,4
Interest expense	5,058	193	7
Depreciation	2,810	63	9
Amortization of debt costs	161	1	
General and administrative	746	62	2
	-----	-----	-----
Total expenses	12,411	401	3,4
	-----	-----	-----
Equity in earnings (losses) of affiliates	2,398	-	
	-----	-----	-----
Earnings from continuing operations before income taxes, minority interest, gain on sales of properties and discontinued operations	5,711	2,398	2,4
Income tax provision	-	-	
Minority interest in operating partnership	8	-	

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Gain on sales of properties	1,390	-	-
	-----	-----	-----
Income from continuing operations before discontinued operations	7,109	2,398	2,4
Income from discontinued operations	(11)	-	1
	-----	-----	-----
Net Income	\$ 7,098	\$ 2,398	\$ 2,6
	=====	=====	=====

9

	GUARANTORS		
	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES	IRT PARTNERS, L
	-----	-----	-----
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002			
REVENUES			
Income from rental properties	\$ 46,969	\$ 1,568	\$ 18,45
Interest Income	401	-	23
Interest on direct financing leases	218	-	-
Other income	383	9,359	-
	-----	-----	-----
Total revenues	47,971	10,927	18,68
	-----	-----	-----
EXPENSES			
Operating expenses of rental properties	11,649	404	5,15
Interest expense	14,164	496	2,40
Depreciation	8,462	186	3,00
Amortization of debt costs	474	2	1
General and administrative	2,090	283	85
	-----	-----	-----
Total expenses	36,839	1,371	11,42
	-----	-----	-----
Equity in earnings (losses) of affiliates	9,547	-	-
	-----	-----	-----
Earnings from continuing operations before income taxes, minority interest, gain on sales of properties and discontinued operations	20,679	9,556	7,26
Income tax provision	-	(9)	-
Minority interest in operating partnership	142	-	-
Gain on sales of properties	-	-	-
	-----	-----	-----

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Income from continuing operations before discontinued operations and extraordinary item	20,821	9,547	7,26
Income from discontinued operations	(158)	-	2,51
Extraordinary item - loss on extinguishment of debt	(156)	-	
Net income	\$ 20,507	\$ 9,547	\$ 9,77
Net cash flows provided by (used in) operating activities	\$ 19,932	\$ 8,616	\$ 10,79
Net cash flows (used in) provided by investing activities	\$ (6,474)	\$ (1,004)	\$ 1,75
Net cash flows (used in) provided by financing activities	\$ (16,610)	\$ (7,686)	\$ (12,34)

	GUARANTORS		
	IRT PROPERTY COMPANY	COMBINED SUBSIDIARIES	IRT PARTNERS, L
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001			
REVENUES			
Income from rental properties	\$ 45,498	\$ 945	\$ 16,96
Interest Income	899	-	32
Interest on direct financing leases	335	-	
Other income	327	8,888	29
Total revenues	47,059	9,833	17,58
EXPENSES			
Operating expenses of rental properties	11,088	218	4,50
Interest expense	15,517	479	2,04
Depreciation	8,312	153	2,77
Amortization of debt costs	469	2	
General and administrative	2,223	170	76
Total expenses	37,609	1,022	10,08
Equity in earnings (losses) of affiliates	8,758	-	

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Earnings from continuing operations before income taxes, minority interest, gain on sales of properties and discontinued operations	18,208	8,811	7,49
Income tax provision	-	(53)	
Minority interest in operating partnership	17	-	
Gain on sales of properties	1,390	-	1,10
Income from continuing operations before discontinued operations	19,615	8,758	8,60
Income from discontinued operations	(34)	-	34
Net Income	\$ 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

10

5. MORTGAGE NOTES PAYABLE

On February 19, 2002, the Company assumed a non-recourse, secured loan totaling \$4,800, in connection with the acquisition of Parkwest Crossing. The secured loan has a fixed interest rate of 8.1%. The loan is due and payable September 1, 2010 and the principal amortization is based on a thirty year amortization schedule. Costs associated with assuming the secured loan totaled \$56 and is being amortized over the term of the loan.

On March 1, 2002, the Company prepaid a 9.63% secured loan of approximately \$5,198. The loan was due on June 1, 2002.

On September 30, 2002, the Company prepaid a 7.65% secured loan of approximately \$1,989. The loan was due on December 1, 2002.

6. 7.3% CONVERTIBLE SUBORDINATED DEBENTURES

On January 24, 2002, the Company redeemed all of the outstanding 7.3% convertible subordinated debentures due August 15, 2003 at par plus accrued interest. Prior to redemption, 165 bonds were converted into 14,659 shares of common stock. The Company paid \$23,110 to redeem the remaining bonds outstanding and recognized a \$156 extraordinary loss on the extinguishment of unamortized debt costs.

7. SENIOR NOTES

On January 23, 2002, pursuant to the Medium Term Note Program (the "MTN Program") established in 2001, the Company issued \$25,000 of 7.84% senior

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unsecured notes due January 23, 2012. Interest on these senior notes is payable semi-annually on January 23 and July 23. Costs associated with the issuance of these senior notes totaled approximately \$306 and are being amortized over the life of the notes.

8. COMMITMENTS AND CONTINGENCIES

Certain of the Company's properties have environmental concerns that have been or are being addressed. The Company maintains limited insurance coverage for this type of environmental risk. Although no assurance can be given that Company properties will not be affected adversely in the future by environmental problems, the Company presently believes that there are no environmental matters that are reasonably likely to have a material adverse effect on the Company's financial position.

9. COMMON STOCK

In May 2002, the Company completed an offering of 3,450,000 shares of common stock at \$11.79 per share. Net proceeds to the Company were approximately \$38,508.

10. DEFERRED COMPENSATION

On May 30, 2002, 160,000 restricted shares of common stock were granted to certain Company officers as incentives for future services. The restricted shares vest proportionately over 4 years from the date of grant. The restricted shares were valued at the closing price of the Company's common stock on May 30, 2002 of \$11.97. As of September 30, 2002, the Company had recognized compensation expense of approximately \$64 related to this grant within the Condensed Consolidated Income Statements.

11

11. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding during the period. The effects of the conversion of the operating partnership units held by the minority interest are dilutive for the three and nine months ended September 30, 2001 and have been included in the calculation of diluted earnings per share for those periods. For the three and nine months ended September 30, 2002, the effect of the operating partnership units have been excluded from the calculation as they are anti-dilutive for the period. For the three and nine months ended September 30, 2002 and 2001 the effects of the conversion of the 7.3% debentures have been excluded from the calculation of diluted earnings per share as they are anti-dilutive for those periods. The effects of certain stock options and non-vested restricted stock, using the treasury stock method, have been included in the calculation of diluted earnings per share, as they are dilutive for all periods presented.

	Income	Shares	Per Share Amount
	-----	-----	-----
(In thousands except per share amounts)			
For the three months ended September 30, 2002			

Basic net earnings available to shareholders	\$ 8,232	33,973	\$ 0.24

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Options outstanding	-	184		=====
Restricted stock	-	19		
Diluted net earnings available to shareholders	\$ 8,232	34,176	\$ 0.24	=====

For the three months ended September 30, 2001

Basic net earnings available to shareholders	\$ 5,716	30,388	\$ 0.19	=====
Options outstanding	-	106		
Restricted stock	-	29		
Minority interest of unitholders in operating partnership	117	816		
Diluted net earnings available to shareholders	\$ 5,833	31,339	\$ 0.19	=====

For the nine months ended September 30, 2002

Basic net earnings available to shareholders	\$20,500	32,360	\$ 0.63	=====
Options outstanding	-	174		
Restricted Stock	-	17		
Diluted net earnings available to shareholders	\$20,500	32,551	\$ 0.63	=====

For the nine months ended September 30, 2001

Basic net earnings available to shareholders	\$19,597	30,294	\$ 0.65	=====
Options outstanding	-	78		
Restricted stock	-	3		
Minority interest of unitholders in operating partnership	422	816		
Diluted net earnings available to shareholders	\$20,019	31,191	\$ 0.64	=====

12. SUBSEQUENT EVENTS

On October 7, 2002, an agreement was signed for the sale of the Lexington Shopping Center in Lexington, VA to close on November 29, 2002. This unsolicited offer was from the single tenant occupying the center. The Company expects to recognize a gain on the sale of approximately \$1,400.

On October 28, 2002, Equity One, Inc. (NYSE: EQY) and the Company executed a merger agreement pursuant to which Equity One will acquire the Company. In connection with the merger, each of the Company's shareholders may elect to receive for each share of the Company's common stock either \$12.15 in cash or 0.9 shares of Equity One common stock, or a combination thereof. The terms of the merger agreement further provide that the holders of no more than 50% of the Company's outstanding common stock may elect to receive cash.

Completion of the transaction, which is expected to take place in the first quarter of 2003, is subject to the approval of Equity One's and the Company's shareholders and other customary conditions. The boards of each of the Company and Equity One have unanimously approved the transaction. Additionally, holders

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of approximately 75% of Equity One's common stock and approximately 8% of the Company's common stock have agreed to vote their shares in favor of the transactions contemplated by the merger. On the 4th business day prior to the shareholder meetings, the Equity One holders may withdraw their voting support, and the Company's board may withdraw its merger recommendation, if Equity One's weighted average stock price for the 30 preceding trading days is less than \$12.06 or less than \$11.00 for the three preceding trading days. In addition, on the 4th business day prior to the shareholder meetings the Equity One holders may withdraw their voting support if the Company's weighted average stock price for the 30 preceding trading days is less than \$10.935 or less than \$9.935 for the three preceding trading days.

The Company cannot make any assurances that the merger with Equity One will be consummated according to the terms set forth in the merger agreement, if at all. Either the Company or Equity One may terminate the merger agreement if the merger is not consummated by March 31, 2003. The Company will be required to pay a \$15 million break-up fee to Equity One in the event that the Company enters into an agreement for a superior transaction or if, under certain circumstances, the Company's board withdraws its recommendation for the transaction.

On October 31, 2002, Janet Herszenhorn, an individual stockholder of IRT, purporting to represent a class of holders of IRT common stock, filed a putative class action lawsuit in the Superior Court of Cobb County, Georgia, against IRT, Equity One and each of the directors of IRT. The complaint alleges, among other things, that IRT and its individual directors breached their fiduciary duties by agreeing to the merger between Equity One and IRT and that Equity One aided and abetted such breach. The complaint seeks injunctive relief, an order enjoining consummation of the merger and unspecified damages.

On October 31, 2002, John Greaves, an individual stockholder of IRT, purporting to represent a class of holders of IRT common stock, also filed a putative class action lawsuit in the Superior Court of Cobb County, Georgia, against IRT, Equity One and each of the directors of IRT. The complaint alleges, among other things, that IRT and its individual directors breached their fiduciary duties by agreeing to the merger between Equity One and IRT and that Equity One aided and abetted such breach. The complaint seeks injunctive relief, an order enjoining consummation of the merger and unspecified damages.

Although the defendants believe that these suits are without merit and intend to defend themselves vigorously, there can be no assurance that the pending litigation will not interfere with the consummation of the merger. IRT and Equity One do not expect that these suits will interfere with the scheduling of their respective shareholder meetings or the consummation of the merger, if approved.

13

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands, except per share amounts)

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report.

OVERVIEW

IRT Property Company ("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

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and community shopping centers throughout the southeastern United States. The Company's portfolio consists of 89 shopping centers, three shopping center investments, two development properties, one industrial property and three mortgage loans. The 89 shopping centers and the three shopping center investments total approximately 9.8 million square feet of retail space and are 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.

GEOGRAPHIC MARKETS

The Company owns and operates 89 shopping centers in ten states primarily located in Florida (27), Georgia (20), Louisiana (14) and North Carolina (13). The following table summarizes the Company's shopping centers by state for total gross leasable area ("GLA") and rental income for the nine months ended September 30, 2002 and for the year ended December 31, 2001:

	% OF GLA		% OF RENTAL INCOME	
	SEPTEMBER 30, 2002	DECEMBER 31, 2001	SEPTEMBER 30, 2002	DECEMBER 31, 2001
Florida	33.2%	32.3%	39.4%	38.4%
Georgia	24.6%	25.1%	24.6%	25.6%
Louisiana	17.5%	17.8%	13.7%	14.4%
North Carolina	12.5%	12.5%	11.7%	11.2%
Tennessee	3.7%	3.7%	3.3%	3.2%
Virginia	2.8%	2.8%	2.3%	2.3%
South Carolina	2.5%	2.6%	2.0%	2.0%
Alabama	2.1%	2.1%	2.1%	2.2%
Mississippi	0.7%	0.7%	0.5%	0.3%
Kentucky	0.4%	0.4%	0.4%	0.4%
	100.0%	100.0%	100.0%	100.0%

14

TENANTS AND LEASING

The Company's 89 shopping centers are anchored by necessity-oriented retailers such as supermarkets, drug stores, national value retailers and department stores. The Company's five largest tenants, as a percentage of revenues, are Publix (9.6%), Kroger (7.1%), Wal-Mart (4.6%), Kmart (3.4%) and Winn Dixie (2.6%). As of September 30, 2002, of the Company's 9.8 million square feet of retail space, approximately 2.8 million, or 28.9%, was leased to grocery stores. Including anchor tenants, the Company has over 1,000 different tenants. The following table represents the percent leased and the average base rent per square foot leased by state as of September 30, 2002 and December 31, 2001:

% LEASED	AVERAGE BASE RENT PER SQUARE FOOT LEASED
-----	-----

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	SEPTEMBER 30, 2002	DECEMBER 31, 2001	SEPTEMBER 30, 2002	DECEMBER 31, 2001
Florida	95%	92%	\$ 9.27	\$ 9.10
Georgia	94%	95%	8.19	8.19
Louisiana	77%	87%	7.65	7.22
North Carolina	95%	94%	6.77	6.64
Tennessee	95%	97%	6.49	6.60
Virginia	93%	92%	7.03	6.93
South Carolina	96%	95%	6.08	6.06
Alabama	99%	98%	7.99	7.90
Mississippi	100%	100%	5.63	5.62
Kentucky	56%	94%	8.03	7.81
Total of all properties	92%	93%	\$ 8.12	\$ 7.94

The overall percent leased decreased slightly from 93% at December 31, 2001 to 92% at September 30, 2002. The decrease was due to one of the Company's major tenants, Kmart, rejecting one lease in Louisiana of 72,897 square feet at the end of June and one lease in Louisiana of 92,079 square feet in July.

Base rent per square foot leased increased from \$7.94 per square foot as of December 31, 2001 to \$8.12 per square foot as of September 30, 2002 due to increased renewal rental rates, higher rates on the new properties and disposition of properties in tertiary markets with below market rents. The Company renewed leases during 2002 at an average increase of 4.3% in rental revenues. The Company also completed three developments and purchased three properties during 2001 and 2002, which have higher base rents per square foot.

The necessity-oriented retailers, such as those occupying the Company's properties, typically perform well in an economic recession; however, adverse changes in general or local economic conditions could result in the inability of some existing tenants to meet their lease obligations and could adversely affect the Company's ability to attract or retain tenants.

In October 1999, a grocery anchor, Jitney Jungle, filed for reorganization under Chapter 11 of the United States Bankruptcy Code. At the time of filing, the Company had leases with Jitney Jungle at 10 store locations. Jitney Jungle disavowed two of these leases at the time of the bankruptcy filing. During 2000, Jitney Jungle rejected three additional leases, and in January 2001 the remaining five leases were rejected by the bankruptcy court. As of September 30, 2002, of the 10 original Jitney Jungle locations, three are fully leased to grocery operators, three are fully leased to other national tenants and one is partially leased to a national tenant. The Company is negotiating with retailers for two of the remaining three locations.

On January 22, 2002, one of the Company's anchor tenants, Kmart Corporation, filed for bankruptcy protection. The Company has eight stores leased to Kmart, which accounted for 3.4% of the Company's total revenues for the nine months ended September 30, 2002. On March 8, 2002, Kmart Corporation announced nationwide store closings that included two stores in IRT's portfolio. Rental income from these two stores in 2001 was approximately \$730, including base rents and all related charges of property taxes and common area maintenance. Subsequently in June 2002, the two stores, located at Siegen Village and Pinhook Plaza in Louisiana, closed when store-closing inventory

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sales were completed. In July and August, the respective leases were rejected by Kmart and the Company obtained possession of this space. The Company is aggressively marketing these locations to prospective tenants and presently believes revenue lost will not have a material adverse affect on the Company.

Other tenants have also filed for protection under bankruptcy laws, however; the Company presently believes the potential financial losses likely will not be significant with regard to the Company's overall portfolio of tenants.

As of September 30, 2002, our leases with anchor tenants had a weighted average life of 7.67 years. Anchor tenants are defined as supermarkets, drug stores, national value retailers, department stores and other tenants leasing in excess of 10,000 square feet which, in management's opinion, have the traffic-generating qualities necessary to be considered an anchor. Our leases with shop tenants, which include all other tenants except anchors, had a weighted average life of 2.86 years as of September 30, 2002. The following table represents anchor and shop tenant lease expirations as of September 30, 2002:

LEASE YEAR EXPIRATION	NUMBER OF LEASES EXPIRING	APPROXIMATE LEASED AREA IN SQUARE FEET	ANNUALIZED BASE RENT UNDER EXPIRING LEASES	AVERAGE BASE RENT PER SQUARE FOOT
-----	-----	-----	-----	-----
2002	83	208,290	\$ 2,064,281	\$ 9.91
2003	315	830,462	8,492,950	10.23
2004	280	792,486	8,347,211	10.53
2005	307	959,172	9,530,468	9.94
2006	191	922,894	8,524,505	9.24
2007	156	909,051	7,551,164	8.31
2008	36	454,169	2,961,991	6.52
2009	23	764,866	4,052,414	5.30
2010	19	280,900	1,826,182	6.50
2011	17	496,761	3,210,617	6.46
2012	14	344,116	2,570,347	7.47
Thereafter	58	1,825,154	13,052,869	7.15
-----	-----	-----	-----	-----
Total	1,499	8,788,321	\$ 72,184,999	\$ 8.21
=====	=====	=====	=====	=====

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 valuation adjustments to tenant related accounts, determination of useful lives of assets subject to depreciation or amortization and impairment evaluation of operating and development properties and other long-term assets. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a

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result, actual results could differ significantly from those estimates.

Additional discussion of accounting policies that we consider to be significant, including further discussion of the critical accounting policies described below, are included in the Company's December 31, 2001 Form 10-K notes to the consolidated financial statements.

Revenue Recognition

Leases with tenants are accounted for as operating leases. Rental revenue is recognized on a straight-line basis over the initial lease term. Certain tenants are required to pay percentage rents based on their gross sales exceeding specified amounts. This percentage rental revenue is recorded upon collection. 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 valuation adjustments to all tenant related revenue based upon the tenant's credit and business risk. The Company suspends the accrual of income on specific investments where interest, reimbursement or rental payments are delinquent sixty days or more. These valuation adjustments are estimates that affect the Company's net earnings since an increase or decrease in the valuation adjustments directly leads to a decrease or increase in net earnings, respectively.

Rental Properties

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 buildings and significant improvements. Tenant improvements are depreciated on a straight-line basis over the life of the related lease.

When costs are capitalized, the Company must make a judgment of the useful life of the asset for purposes of determining the amount of yearly depreciation, which affects net earnings. If the useful life were increased, yearly depreciation would be reduced, thus increasing net earnings.

Impairment of Properties

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. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Impairment is based on whether it is probable that undiscounted future cash flows from each property will be less than its net book value. The Company assesses whether there are any indicators that the value of the asset may be impaired. In addition, judgments are made in calculating the undiscounted cash flows. These assessments and judgments could have a material impact on net earnings since, if an impairment exists, the asset is written down to its estimated fair value and an impairment loss is recognized thereby reducing net earnings.

17

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2002 TO THE THREE MONTHS ENDED SEPTEMBER 30, 2001

Revenues

Total revenues increased \$939, or 4.3%, to \$22,595 in 2002 primarily due to an increase in income from rental properties of \$1,287 which was partially

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offset by decreases in interest income of \$79 and interest on direct financing leases of \$4 and gain on sales of outparcels of \$265.

Income from rental properties increased \$1,287, or 6.1%, to \$22,542 in 2002. Included in income from rental properties is minimum rent, percentage rent and other rental income. Minimum rents increased \$820, or 4.8%, primarily due to an increase in rental rates per square foot from \$7.94 in 2001 to \$8.12 in 2002 and the core portfolio of properties contributing \$389, or an increase of 1.8%, over 2001. The core portfolio is defined as properties held in the same corresponding period from the current and prior year, excluding those properties sold or acquired during the same corresponding period. Income from rental properties increased \$879 due to one property acquired in 2002, one property acquired in 2001 and two completed developments which was partially offset by a \$17 decrease in income attributable to the sale of four properties in 2001. Percentage rent, based on tenant's gross sales exceeding specified amounts, increased \$2, or 3.5%, to \$59 for 2002. Other rental income such as tenant reimbursements for common area maintenance ("CAM"), property taxes and insurance, tenant allowances (bad debt reserves) and lease cancellation fees, increased \$465, or 11.5%, to \$4,502. This increase was partially due to an increase in tenant reimbursements for CAM of \$859, or 23.9%. The reimbursements received as a percentage of expenses were 79.4% in 2002 and 73.7% in 2001. The increase in the reimbursement percentage is due to the releasing of several of the former Jitney Jungle locations during late 2001 and early 2002. Tenant allowances increased \$62, or 753.4%, from 2001 and represented only 0.3% of rental income in 2002. Lease cancellation fees decreased \$387, or 94.4%, due to the one-time lease termination fee of an anchor in 2001.

Interest income decreased \$79, or 85.9%, to \$13 in 2002 from \$92 in 2001. The decrease was due to interest charged on a development loan that was repaid in 2001.

Interest on direct financing leases decreased \$4, or 7.8%, due to the recurring amortization of the lease.

Gain on sale of outparcels decreased \$265, or 102.7% to \$(7) in 2002. In 2001 the Company sold an outparcel compared to no outparcel sales occurring in 2002.

Expenses

Total expenses increased \$434, or 2.7%, to \$16,387 in 2002 due to increases in operating expenses of rental properties of \$766, depreciation of \$99 and amortization costs of \$21, partially offset by a decrease in administrative expenses of \$102 and interest expense of \$350.

Operating expenses of rental properties increased \$766, or 14.7%, to \$5,969 in 2002. This increase was partially due to an increase of real estate taxes of \$183, or 9.6%, over 2001 as a result of increased property values. Insurance costs increased by \$313, or 109.7%, over 2001 due to a significant increase in premiums as a result of the insurance market environment. The Company amortizes lease fees that are capitalized and the amortization expense increased \$26, or 8.1%, in 2002 due to increased leasing activity in 2001 in connection with the releasing of the former Jitney Jungle stores. During 2002, the Company executed over 247,000 square feet of new or renewed leases. Tenant reimbursable operating expenses increased \$229, or 13.6%, primarily due to higher operating and maintenance costs. Overall, the operating expenses of properties increased due to core portfolio operating expenses increasing \$558, or 10.8%, over 2001 and the one property acquired in 2002 with the one property acquired during 2001 and the two development properties completed in 2002, increasing expenses \$206.

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Interest expense decreased \$350, or 6.1%, in 2002 primarily due to a decrease of \$328 on bank interest as a result of a lower effective interest rate of 4.14% in 2002 as compared to 4.56% in 2001 and a lower average borrowing during 2002 of \$20,795 compared to \$34,605 during 2001. This decrease was partially offset by the higher interest rate on the new senior unsecured notes issued in January 2002 of 7.84% or \$65.

The net increase of \$99, or 2.6%, in depreciation expense in 2002 was due to the acquisition of a shopping center in the first quarter of 2002 and two shopping centers during 2001, net of the effect of the disposition of three properties in 2001.

Amortization of debt costs increased \$21, or 12.7%, due to the \$25,000 of 7.84% senior notes issued in January 2002, partially offset by the write-off of costs relating to the redemption of the 7.3% convertible bonds in January 2002.

General and administrative expenses decreased \$102, or 9.5%, to \$974 in 2002 primarily due to a \$143 decrease in capitalized development costs as compared to 2001 since two developments were completed in 2002. Total general and administrative expenses as a percentage of total revenues were 4.3% and 5.0% for 2002 and 2001, respectively.

Other

Minority interest expense increased \$17, or 15.6%, to \$126 in 2002. Minority interest represents the interest of an unaffiliated limited partner in the earnings of a partnership with the Company. The partnership sold a property in 2002 thus increasing the net income of the partnership in 2002. No such sales occurred in 2001. This increase in partnership net income from 2001 is also due to the Company acquiring one property in 2002 and two properties in 2001 for inclusion in the partnership, which increased the Company's percentage ownership of the partnership from 94.1% in 2001 to 94.4% in 2002.

Due to the implementation of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assts," effective January 1, 2002 the operating results of certain real estate assets sold subsequent to January 1, 2002 and the respective gain relating to the sale be reported as discontinued operations. As a result, there are no gains on sale of properties within income from continuing operations in 2002.

The Company sold a property in 2002, compared to none in 2001, leading to an increase in income from discontinued operations of \$2,150 in 2002. Of the total income from discontinued operations, \$88 related to the income from the discontinued operation and \$2,062 related to the gain on the sale of the property. The 2002 income of \$88 represents \$171 of rental income, \$38 of property operating expenses, \$3 of interest expense, \$37 of depreciation expense and \$5 of minority interest expense. The 2001 income of \$122 represents \$208 of rental income, \$38 of operating expenses, \$4 of interest expense, \$36 of depreciation expense and \$8 of minority interest expense.

Net Income

Net income increased \$2,516, or 44.0%, to \$8,232 in 2002 from \$5,716 in 2001. The increase was attributable to gains on sales of properties in 2002 and an increase in revenues primarily from the increase in base rents per square foot and rental revenues. These increases in revenues were partially offset by higher operating expenses of the properties.

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Revenues

Total revenues increased \$2,637, or 4.0%, to \$67,752 in 2002 primarily due to an increase in income from rental properties of \$3,584, which was partially offset by decreases in interest income of \$325, interest on direct financing leases of \$117 and gain on sale of outparcels of \$505.

Income from rental properties increased \$3,584, or 5.7%, to \$66,989 in 2002. Included in income from rental properties is minimum rent, percentage rent and other rental income. Minimum rents increased \$2,595, or 5.1%, primarily due to an increase in rental rates per square foot from \$7.94 in 2001 to \$8.12 in 2002 and the core portfolio of properties contributing \$1,661, or an increase of 2.6%, over 2001. The core portfolio is defined as properties held in the same corresponding period from the current and prior year, excluding those properties sold or acquired during the same corresponding period. Income from rental properties increased \$2,269 due to one property acquired in 2002 and two properties acquired in 2001 which was partially offset by a \$356 decrease in income attributable to the sale of four properties in 2001. Percentage rent, based on tenant's gross sales exceeding specified amounts, decreased \$30, or 3.4%, to \$844 for 2002 due to lower sales of existing tenants. Other rental income such as tenant reimbursements, tenant allowances (bad debt reserves) and lease cancellation fees, increased \$1,019, or 8.1%, to \$12,527. This increase was partially due to an increase in tenant reimbursements for common area maintenance ("CAM") of \$1,427, or 13.0%. The reimbursements received as a percentage of expenses were 76.8% in 2002 and 73.8% in 2001. This increase is due to the sales of properties with lower recovery percentages in 2002 and 2001 and the releasing of several former Jitney Jungle spaces. Tenant allowances decreased \$1, or 0.02%, from 2001 and represented only 0.4% of rental income in 2002. Lease cancellation fees decreased \$543, or 88.8%, due to the one-time lease termination fee of an anchor in 2001.

Interest income decreased \$325, or 87.4%, to \$47 in 2002 from \$372 in 2001. The decrease was due to interest charged on a development loan that was repaid in 2001.

Interest on direct financing leases decreased \$117, or 34.9%, due to the sale of one direct financing lease investment in May 2001.

Gain on sale of outparcels decreased \$505, or 50.3% to \$498 in 2002. In 2002 and 2001 the Company sold two and three outparcels, respectively.

Expenses

Total expenses increased \$1,179, or 2.5%, to \$49,048 in 2002 due to increases in operating expenses of rental properties of \$1,395, depreciation of \$417, amortization of debt costs of \$13 and administrative expenses of \$67, partially offset by a decrease in interest expense of \$713.

Operating expenses of rental properties increased \$1,395, or 8.8%, to \$17,204 in 2002. This increase was partially due to an increase of real estate taxes of \$496, or 8.6%, over 2001 as a result of increased property values. Insurance costs increased by \$891, or 101.2%, over 2001 due to a significant increase in premiums as a result of the insurance market environment. The Company amortizes lease fees that are capitalized and the amortization expense increased \$83, or 9.2%, in 2002 due to increased leasing activity in 2001 in connection with the releasing of the former Jitney Jungle stores. During 2002, the Company executed over 707,000 square feet of new or renewed leases. Tenant reimbursable operating expenses decreased \$7, or 0.1%, primarily due to lower operating and maintenance costs. Overall, the operating expenses of properties increased due to core portfolio operating expenses increasing \$835, or 5.3%, over 2001 and the one property acquired in 2002 with the two properties acquired during 2001 and the two development properties completed in 2002 increasing expenses \$627. These increases were partially offset by a decrease in expenses

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of \$62 from the sales of four properties during 2001.

20

Interest expense decreased \$713, or 4.1%, in 2002 primarily due to a decrease of \$1,158 on bank interest as a result of a lower effective interest rate of 4.09% in 2002 as compared to 6.85% in 2001 and a lower average borrowing during 2002 of \$28,081 compared to \$33,040 during 2001. This decrease was partially offset by the higher interest rate on the new senior unsecured notes issued in January 2002 of 7.84% or \$179 and the higher interest rate on the three mortgage notes obtained in the second quarter of 2001 of 7.17% or \$239.

The net increase of \$417, or 3.7%, in depreciation expense in 2002 was due to the acquisition of a shopping center in the first quarter of 2002 and two shopping centers during 2001, net of the effect of the disposition of three properties in 2001.

Amortization of debt costs increased \$13, or 2.7%, due to the \$25,000 of 7.84% senior notes issued in January 2002, partially offset by the write-off of costs relating to the redemption of the 7.3% convertible bonds in January 2002.

General and administrative expenses increased \$67, or 2.1%, to \$3,226 in 2002 primarily due to a \$140 decrease in capitalized development costs. Capitalized development costs decreased from 2001 due to two developments being completed in 2002. Total general and administrative expenses as a percentage of total revenues were 4.8% and 4.9% for 2002 and 2001, respectively.

Other

Income taxes decreased \$44, or 83.0%, in 2002 due to a subsidiary not having as much taxable income in 2002 as 2001.

Minority interest expense decreased \$9, or 2.2%, to \$396 in 2002. Minority interest represents the interest of an unaffiliated limited partner in the earnings of a partnership with the Company. The partnership sold two properties in 2001 thus decreasing the net income of the partnership in 2001. This decrease in partnership net income from 2001 is partially offset due to the Company acquiring one property in 2002 and two properties in 2001 for inclusion in the partnership, which increased the Company's percentage ownership of the partnership from 94.1% in 2001 to 94.4% in 2002.

Due to the implementation of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective January 1, 2002 the operating results of certain real estate assets sold subsequent to January 1, 2002 and the respective gain relating to the sale be reported as discontinued operations. As a result, there are no gains on sale of properties within income from continuing operations in 2002 compare to the gain on sales of four properties of \$2,498 from 2001.

The Company sold a property in 2002, leading to an increase in income from discontinued operations of \$2,357 in 2002. Of the total income from discontinued operations, \$295 related to the income from the discontinued operation and \$2,062 related to the gain on the sale of the property. The 2002 income of \$295 represents \$566 of rental income, \$124 of property operating expenses, \$16 of interest expense, \$112 of depreciation expense and \$19 of minority interest expense. The 2001 income of \$315 represents \$578 of rental income, \$120 of operating expenses, \$17 of interest expense, \$109 of depreciation expense and \$17 of minority interest expense.

Due to the early extinguishment of the 7.3% convertible debentures in January 2002, the Company recognized an extraordinary loss of \$156 on the unamortized debt issue costs. No such transaction occurred in 2001.

Net Income

Net income increased \$903, or 4.6%, to \$20,500 in 2002 from \$19,597 in 2001. The increase was attributable to an increase in revenues primarily from the increase in base rents per square foot and rental revenues, partially offset by a one time extraordinary loss on the extinguishment of debt, higher operating expenses of the properties along with higher general and administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

The Company presently expects cash from operating activities to be its primary source of funds to pay dividends, mortgage note payments and certain capital improvements on properties. Net cash from operating activities was \$30,088 in 2002 as compared to \$28,457 in 2001, an increase of 5.7%. The increase in cash flow is due to an increase in net earnings and less gains on outparcel sales during 2002. Dividends paid during 2002 and 2001 were \$23,200 and \$21,422, respectively. Mortgage principal payments for 2002 and 2001 were \$2,091 and \$1,890, respectively. Total capital expenditures on operating properties for 2002 and 2001 were \$3,875 and \$4,240, respectively.

Other planned activities, including property acquisitions, new developments, certain capital improvement programs and debt repayments, are expected to be funded to the extent necessary by bank borrowings, mortgage financing, periodic sales or exchanges of existing properties, the issuance of OP Units and public or private offerings of stock or debt. Net cash used in investing activities was \$5,721 in 2002, as compared to \$6,228 in 2001, a decrease of \$507. This decrease in cash used in investing activities was due to one acquisition in 2001 as compared to an acquisition in 2002 with an assumed mortgage partially offset by the capital expenditures relating to the development program of \$7,851 in 2002 compared to \$6,451 in 2001 as the Company completed two developments in 2002 and only one development in 2001.

Net cash used in financing activities increased to \$26,824 in 2002 from \$21,498 in 2001, an increase of \$5,326 or 24.8%. This increase was due to the redemption of the convertible debentures in 2002 of \$23,110, a repayment of two mortgages in 2002 of \$7,186 and an increase in dividends of \$1,778. These increases were partially offset by the Company issuing \$38,508 of common stock and \$25,000 of senior notes in 2002 compared to the Company issuing \$50,000 of senior notes in 2001.

In May 1998, the Company filed a shelf registration statement covering up to \$300,000 of common stock, preferred stock, depositary shares, debt securities and warrants. In January 2001, the Company filed a new shelf registration statement to replace and update the 1998 shelf registration statement. The Company presently intends to use the net proceeds of any offerings under such shelf registration for general corporate purposes, which may include, without limitation, repayment of maturing obligations, redemption of outstanding indebtedness or other securities, financing future acquisitions and for working capital.

On March 23, 2001, the Company established a Medium Term Note Program (the "MTN Program"), pursuant to the Company's shelf registration statement filed in January 2001. The MTN Program allows the Company, from time to time, to issue and sell up to \$100,000 of medium term notes. Medium term notes have a maturity of nine months or more from the date of issuance. On March 29, 2001, pursuant to the MTN Program, the Company issued \$50,000 of 7.77% medium term notes due April 1, 2006. Net proceeds from the issuance totaled \$49,328 and were used to substantially repay the \$50,000 of 7.45% senior notes that were due on April 1,

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2001. On January 23, 2002, an additional \$25,000 of 7.84% medium term notes were issued to redeem the 7.3% convertible subordinated debentures. These new notes are due on January 23, 2012. As a result, the Company has \$25,000 of medium term notes available for issuance under its MTN Program. As of March 31, 2002, the Company had issued \$75,000 in debt securities from the shelf registration.

22

The Company also issued 3,450,000 shares of common stock at an offering price of \$11.79 per share for total proceeds, before expenses, of \$40,676 under the shelf registration statement in May 2002. As a result of the MTN Program and common stock sales, \$184,324 of securities remain available for issuance under the shelf registration statement.

On January 24, 2002, the Company redeemed all of the outstanding 7.3% convertible subordinated debentures at par for \$23,220. Prior to redemption, 165 bonds were converted into 14,659 shares of common stock.

The Company uses secured borrowings to meet capital requirements. As of September 30, 2002 the Company had \$130,196 in mortgage notes payable at a weighted average interest rate of 7.60%, which are due in monthly installments with maturity dates ranging from 2005 to 2024.

In February 2002, the Company assumed a non-recourse, mortgage loan totaling \$4,800, in connection with the acquisition of Parkwest Crossing. The secured loan has a fixed interest rate of 8.1%. The loan is due and payable in eight years and the principal amortization is based on a thirty year amortization schedule.

On March 1, 2002, the Company prepaid a 9.63% mortgage loan of approximately \$5,198. The loan was due on June 1, 2002.

On September 30, 2002, the Company prepaid a 7.65% secured loan of approximately \$1,989. The loan was due on December 1, 2002.

In February 2001, the Company entered into three mortgage loans totaling \$20,740, secured by first mortgages on three properties. These notes are due and payable in ten years and the principal amortization is based on a thirty year amortization schedule. The notes bear interest at a weighted average interest rate of 7.17% and range from 7.02% to 7.25%.

Future principal amortization and balloon payments applicable to mortgage notes payable at September 30, 2002 are as follows:

	Scheduled Amortization	Balloon Payments	Total
	-----	-----	-----
2002	\$ 708	\$ -	\$ 708
2003	2,965	-	2,965
2004	3,192	-	3,192
2005	3,448	24,500	27,948
2006	3,586	54,797	58,383
Thereafter	53,991	150,009	204,000
	-----	-----	-----
	\$ 67,890	\$ 229,306	\$297,196
	=====	=====	=====

On November 1, 1999, the Company obtained a \$100,000 unsecured revolving loan facility (the "Revolving Loan"), with an original maturity date of November 1, 2002. This Revolving Loan replaced the Company's previous credit facility and is led by a different financial institution and further backed by a syndicate of four other financial institutions. Not later than November 1 of each year commencing in 2000, the Company may request to extend the maturity date for an additional 12-month period beyond the existing maturity date. The interest rate is, at the option of the Company, either prime, fluctuating daily, or LIBOR plus the "Applicable Margin" (currently 105 basis points), which is subject to adjustment based upon the rating of the senior unsecured long-term debt obligations of the Company. The Company may borrow, repay and/or reborrow under this loan at any time. In addition, the Company secured a \$5,000 unsecured swing line, bearing interest at LIBOR plus the Applicable Margin, scheduled to mature on October 31, 2000. In October 2000, the maturity date of the Revolving Loan and the swing line was extended to November 1, 2003. The Company also secured an option to increase the Revolving Loan at its discretion by \$50,000. On May 29, 2002, the Company amended and renewed the existing \$100 million unsecured line of credit, as well as extending the Company's option to expand the line by \$50 million, until May 29, 2005. The Revolving Loan was also amended to decrease the Applicable Margin to 105 basis points from 115 basis points. The terms of the Company's credit facilities and other instruments and agreements relating to our indebtedness include certain customary operational and financial covenants, which the Company was in compliance with as of September 30, 2002.

As of September 30, 2002 and December 31, 2001, the borrowings under the Company's credit facilities totaled \$17,000 and \$51,654, respectively. The average interest rates for 2002 and 2001 were 3.88% and 6.48%, respectively. At September 30, 2002, the weighted average interest rate was 2.86% on outstanding borrowings under the Revolving Loan.

LP, IRTCCII, IRTAL and IRTMC guarantee the Company's indebtedness under the Company's existing unsecured revolving term loan and its other senior debt.

The Company presently believes that based on currently proposed plans and assumptions relating to its operations, the Company's existing financial arrangements, together with cash flows from operations, will be sufficient to satisfy its foreseeable cash requirements for the next year. At September 30, 2002 the Company's market capitalization was approximately \$698,815, of which 42%, or \$296,988, was from financing sources. It is the Company's present intention to have access to the capital resources necessary to expand and develop its business, while maintaining its investment grade ratings with Moody's Investor Services and Standard and Poor's. Currently, Moody's Investor Services has a Baa3 rating and Standard and Poor's has a BBB- rating on the Company's senior debt. The Company may, from time to time, seek to obtain funds through additional security offerings or debt financings in a manner consistent with its current debt capitalization policy.

RECENT DEVELOPMENTS

On October 28, 2002, Equity One, Inc. (NYSE: EQY) and the Company executed a merger agreement pursuant to which Equity One will acquire the Company. In connection with the merger, each of the Company's shareholders may elect to receive for each share of the Company's common stock either \$12.15 in cash or 0.9 shares of Equity One common stock, or a combination thereof. The terms of the merger agreement further provide that the holders of no more than 50% of the Company's outstanding common stock may elect to receive cash.

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Completion of the transaction, which is expected to take place in the first quarter of 2003, is subject to the approval of Equity One's and the Company's shareholders and other customary conditions. The boards of each of the Company and Equity One have unanimously approved the transaction. Additionally, holders of approximately 75% of Equity One's common stock and approximately 8% of the Company's common stock have agreed to vote their shares in favor of the transactions contemplated by the merger. On the 4th business day prior to the shareholder meetings, the Equity One holders may withdraw their voting support, and the Company's board may withdraw its merger recommendation, if Equity One's weighted average stock price for the 30 preceding trading days is less than \$12.06 or less than \$11.00 for the three preceding trading days. In addition, on the 4th business day prior to the shareholder meetings the Equity One holders may withdraw their voting support if the Company's weighted average stock price for the 30 preceding trading days is less than \$10.935 or less than \$9.935 for the three preceding trading days.

The Company cannot make any assurances that the merger with Equity One will be consummated according to the terms set forth in the merger agreement, if at all. Either the Company or Equity One may terminate the merger agreement if the merger is not consummated by March 31, 2003. The Company will be required to pay a \$15 million break-up fee to Equity One in the event that the Company enters into an agreement for a superior transaction or if, under certain circumstances, the Company's board withdraws its recommendation for the transaction.

On October 31, 2002, Janet Herszenhorn, an individual stockholder of IRT, purporting to represent a class of holders of IRT common stock, filed a putative class action lawsuit in the Superior Court of Cobb County, Georgia, against IRT, Equity One and each of the directors of IRT. The complaint alleges, among other things, that IRT and its individual directors breached their fiduciary duties by agreeing to the merger between Equity One and IRT and that Equity One aided and abetted such breach. The complaint seeks injunctive relief, an order enjoining consummation of the merger and unspecified damages.

On October 31, 2002, John Greaves, an individual stockholder of IRT, purporting to represent a class of holders of IRT common stock, also filed a putative class action lawsuit in the Superior Court of Cobb County, Georgia, against IRT, Equity One and each of the directors of IRT. The complaint alleges, among other things, that IRT and its individual directors breached their fiduciary duties by agreeing to the merger between Equity One and IRT and that Equity One aided and abetted such breach. The complaint seeks injunctive relief, an order enjoining consummation of the merger and unspecified damages.

Although the defendants believe that these suits are without merit and intend to defend themselves vigorously, there can be no assurance that the pending litigation will not interfere with the consummation of the merger. IRT and Equity One do not expect that these suits will interfere with the scheduling of their respective shareholder meetings or the consummation of the merger, if approved.

INFLATION AND ECONOMIC FACTORS

The effects of inflation upon the Company's results of operations and investment portfolio are varied. From the standpoint of revenues, inflation has the dual effect of both increasing the tenant revenues upon which percentage rentals are based and allowing increased fixed rentals as rental rates rise generally to reflect higher construction costs on new properties. This positive effect is partially offset by increasing operating and interest expenses, but usually not to the extent of the increases in revenues.

The Federal Reserve regulates the supply of money through various means,

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including open market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve, and the reserve requirements on deposits. Such activities affect the availability and cost of credit, generally, and the Company's costs under its bank credit facilities, in particular.

25

ENVIRONMENTAL FACTORS

Certain of the Company's properties have environmental concerns that have been or are being addressed. The North Carolina Department of Environment, Health and Natural Resources ("DEHNR") informed the Company, by letter dated November 30, 2000, that the Company's Industrial property in Charlotte, North Carolina ("Industrial Property"), continues to be included on the North Carolina Inactive Hazardous Waste Sites Priority List ("Priority List"). According to DEHNR, the Priority List is a list of sites in North Carolina where uncontrolled disposal, spills, or releases of hazardous substances have been identified. The Company also has been informed by a third-party consultant that hazardous substances may be present in groundwater under the Industrial Property in excess of regulatory limits. DEHNR indicated in its November 30 letter that it was notifying the Company of the inclusion of the Industrial Property on the Priority List, and that the letter was not an order to conduct any work, but that the Company was invited to consider a voluntary cleanup.

The Company has begun investigating this matter, including the basis for inclusion of the Industrial Property on the Priority List and the scope and source of any such hazardous substances in groundwater (which may be a result of, among other things, prior ownership and usage of the Industrial Property or contaminants from other nearby properties). Depending on the results of this investigation, notification of DEHNR may be required and certain corrective actions performed. Based on information presently available, the Company presently believes that the costs of any such corrective action is not expected to have a material adverse effect on the Company.

Various of our properties include facilities leased to dry cleaners. At some of the properties, dry cleaning solvents have been discovered in soil and/or groundwater, and in several cases, preliminary investigations indicate the amounts exceed applicable groundwater and/or soil protection standards and may require further investigation or remediation. The costs associated with such investigation or corrective actions are uncertain.

Since January 1, 2000, the Company has maintained environmental and pollution legal liability insurance coverage to attempt to mitigate the associated risks. Although no assurance can be given that Company properties will not be affected adversely in the future by environmental problems, the Company presently believes that there are no environmental matters that are reasonably likely to have a material adverse effect on the Company's financial position.

FUNDS FROM OPERATIONS

The Company defines funds from operations, consistent with the National Association of Real Estate Investment Trusts ("NAREIT") definition, as net earnings on real estate investments less gains (losses) on sale of properties and extraordinary items plus depreciation and amortization of capitalized leasing costs. Interest and amortization of issuance costs related to convertible subordinated debentures and minority interest expenses are added back to funds from operations when assumed conversion of the debentures and OP Units is dilutive. The conversion of the debentures, that were redeemed on January 24, 2002, are dilutive for the nine months ended September 30, 2002 and

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the three and nine months ended September 30, 2001. The conversion of the debentures for the three months ended September 30, 2002, are anti-dilutive and therefore excluded from the calculation. The conversion of the OP Units are dilutive for the three and nine months ended September 30, 2002 and are included in the calculation. Management believes funds from operations should be considered along with, but not as an alternative to, net earnings as defined by generally accepted accounting principles as a measure of the Company's operating performance. Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs.

26

The following data is presented with respect to the calculation of funds from operations under the NAREIT definition for the three and nine months ended September 30, 2002 and 2001 (in thousands except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
NET EARNINGS	\$ 8,232	\$ 5,716	\$20,500	\$19,597
Extraordinary loss on extinguishment of debt	-	-	156	-
Gain on sales of properties	(2,062)	-	(2,062)	(2,498)
Depreciation *	3,868	3,770	11,596	11,160
Amortization of capitalized leasing fees *	345	319	995	914
	10,383	9,805	31,185	29,173
FUNDS FROM OPERATIONS				
Interest on convertible debentures	-	425	109	1,274
Amortization of convertible debenture costs	-	25	7	75
Amounts attributable to minority interests	195	177	601	624
	\$10,578	\$10,432	\$31,902	\$31,146
FULLY DILUTED FUNDS FROM OPERATIONS				
FULLY DILUTED FUNDS FROM OPERATIONS PER SHARE	\$ 0.30	\$ 0.31	\$ 0.95	\$ 0.94
APPLICABLE WEIGHTED AVERAGE SHARES	34,991	33,407	33,548	33,260