SIZELER PROPERTY INVESTORS INC
Form 10-Q
May 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 1-9349

SIZELER PROPERTY INVESTORS, INC.
(Exact name of registrant as specified in its charter)

MARYLAND	72-1082589
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2542 WILLIAMS BOULEVARD, KENNER, LOUISIANA	70062
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (504) 471-6200

Former name, former address and former fiscal year, if changed since last report.

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes___ No___

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

13,092,000 shares of Common Stock ($.0001 Par Value) were outstanding as of May 7, 2002.

Sizeler Property Investors, Inc. and Subsidiaries

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Sizeler Property Investors, Inc. and Subsidiaries
Consolidated Balance Sheets

	March 31 2002 (Unaudited)
ASSETS	
Real estate investments (Note A):	
Land	$ 53,114,000
Buildings and improvements, net of accumulated depreciation of $89,286,000 in 2002 and $86,627,000 in 2001	208,295,000
Investment in real estate partnership	852,000
	262,261,000
Cash and cash equivalents	1,264,000
Accounts receivable and accrued revenue, net of allowance for doubtful accounts of $163,000 in 2002 and $165,000 in 2001	4,625,000
Prepaid expenses and other assets	10,606,000
Total Assets	$ 278,756,000
LIABILITIES AND SHAREHOLDERS' EQUITY	
LIABILITIES	
Mortgage notes payable (Note C)	$ 110,646,000
Notes payable	2,204,000
Accounts payable and accrued expenses	3,362,000
Tenant deposits and advance rents	884,000
	117,096,000
Convertible subordinated debentures	61,878,000
Total Liabilities	178,974,000
SHAREHOLDERS' EQUITY	
Series A preferred stock, 40,000 shares authorized, none issued	---
Series B preferred stock, liquidation preference $25 per share, 2,476,000 shares authorized, none issued	---
Common stock, par value $0.0001 per share, 51,484,000 shares authorized, shares issued and outstanding - 12,757,000 in 2002 and 12,013,000 in 2001	1,000
Excess stock, par value $0.0001 per share, 16,000,000 shares Authorized, none issued	---
Additional paid-in capital	158,976,000
Cumulative net income	43,115,000
Cumulative distributions paid	(102,310,000)

	99,782,000
Total Liabilities and Shareholders' Equity	$ 278,756,000

See notes to consolidated financial statements.

Sizeler Property Investors, Inc. and Subsidiaries
Consolidated Statements of Income

(unaudited)

	Three Months Ended March 31	
	2002	2001
OPERATING REVENUE (Note A)		
Rents and other income	$ 13,101,000	$ 13,125,000
Equity in income of partnership	34,000	31,000
	13,135,000	13,156,000
OPERATING EXPENSES		
Utilities	487,000	564,000
Real estate taxes	999,000	988,000
Administrative expenses	1,365,000	1,303,000
Operations and maintenance	1,957,000	1,933,000
Other operating expenses	1,007,000	890,000
Depreciation and amortization	2,823,000	2,833,000
	8,638,000	8,511,000
INCOME FROM OPERATIONS	4,497,000	4,645,000
Interest expense	3,306,000	3,982,000
NET INCOME	$ 1,191,000	$ 663,000
Net income per share	$ 0.10	$ 0.08
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	12,236,000	8,107,000

See notes to consolidated financial statements.

Sizeler Property Investors, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(unaudited)

	Three Months 2002
OPERATING ACTIVITIES:	
Net income	$ 1,191,000
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	2,823,000
Decrease (increase) in accounts receivable and accrued revenue	694,000
Increase in prepaid expenses and other assets	(686,000)
Decrease in accounts payable and accrued expenses	(3,607,000)
Net Cash Provided by Operating Activities	415,000
INVESTING ACTIVITIES:	
Acquisitions of and improvements to real estate investments	(1,266,000)
Net Cash Used in Investing Activities	(1,266,000)
FINANCING ACTIVITIES:	
Principal payments on mortgage notes payable	(577,000)
Net (payments) proceeds on notes payable to banks	(186,000)
Decrease (increase) in mortgage escrow deposits and debt issuance costs	329,000
Cash dividends to shareholders	(2,802,000)
Proceeds from issuance of shares of common stock pursuant to direct stock purchase, stock option, and stock award plans	4,123,000
Net Cash Provided by (Used in) Financing Activities	887,000
Net increase (decrease) in cash and cash equivalents	36,000
Cash and cash equivalents at beginning of period	1,228,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,264,000
Cash interest payments, net of capitalized interest	$ 4,550,000

See notes to consolidated financial statements

Sizeler Property Investors, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

March 31, 2002

NOTE A -- BASIS OF PRESENTATION

As of March 31, 2002, the Company's real estate portfolio included interests in fifteen shopping centers and fourteen apartment communities. The Company holds, directly or indirectly through both wholly-owned subsidiaries and majority-owned entities, a fee interest in twenty-seven of its properties, and long-term ground leases on the remaining two properties - Southwood Shopping Center in Gretna, Louisiana and Westland Shopping Center in Kenner, Louisiana. Sixteen properties are held through partnerships and limited partnerships whereby the majority owner is a wholly-owned subsidiary of Sizeler Property Investors, Inc. The minority interests in these entities are held by third party corporations who have contributed capital for their respective interests. The other thirteen properties in the portfolio are held through wholly-owned subsidiary corporations and limited liability companies. The Company, the wholly-owned subsidiaries and majority-owned partnerships and limited partnerships, are referred to collectively as the "Company".

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Furthermore, the preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

Operating results for the three-month period ended March 31, 2002, are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. The consolidated balance sheet at December 31, 2001, has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Sizeler Property Investors, Inc. Annual Report on Form 10-K for the year ended December 31, 2001.

NOTE B -- RECLASSIFICATIONS

Certain reclassifications have been made in the 2001 Consolidated Financial Statements to conform with the 2002 financial statement presentation.

NOTE C -- MORTGAGE NOTES PAYABLE

The Company's mortgage notes payable are secured by certain land, buildings and improvements. At March 31, 2002, mortgage notes payable totalled approximately $110.6 million. Individual notes ranged from $2.9 million to $19.0 million, with fixed rates of interest ranging from 6.85% to 8.25% and maturity dates ranging from May 1, 2008 to January 1, 2013. Net book values of properties securing these mortgage notes payable totalled approximately $132.4 million at March 31, 2002, with individual property net book values ranging from $2.2 million to $29.4 million.

NOTE D - SEGMENT DISCLOSURE

The Company is engaged in two operating segments, the ownership and rental of retail shopping center properties and apartment properties. These reportable segments offer different products or services and are managed separately as each requires different operating strategies and management expertise. There are no intersegment sales or transfers.

The Company assesses and measures segment operating results based on a performance measure referred to as Net Operating Income and is based on the operating revenues and operating expenses directly associated with the operations of the real estate properties (excluding depreciation, administrative and interest expense). Net Operating Income is not a measure of operating results or cash flows from operating activities as measured by GAAP, and is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity.

The operating revenue, operating expenses, net operating income and real estate investments for each of the reportable segments are summarized below for the three-month periods ended March 31, 2002 and 2001.

	Quarter Ended March 31	
	2002	2001
Retail:		
Operating revenue	$ 7,136,000	$ 7,277,000
Operating expenses	(2,207,000)	(2,269,000)
Net operating income - retail	4,929,000	5,008,000
Apartments:		
Operating revenue	5,999,000	5,879,000
Operating expenses	(2,243,000)	(2,106,000)
Net operating income - apartments	3,756,000	3,773,000
Net operating income - total	8,685,000	8,781,000
Administrative expenses	(1,365,000)	(1,303,000)
Depreciation	(2,823,000)	(2,833,000)
Income from operations	4,497,000	4,645,000
Interest expense	(3,306,000)	(3,982,000)
Net income	$ 1,191,000	$ 663,000

	March 31	
	2002	2001
Gross real estate investments:		
Retail	$211,748,000	$213,822,000
Apartments	139,799,000	137,335,000
	$351,547,000	$351,157,000

NOTE E - SUBSEQUENT EVENTS

Exchange offer. On May 1, 2002, the Company completed an exchange offer for its outstanding 8.0% convertible subordinated debentures due July 15, 2003 (Old Debentures). As a result of the exchange offer, the Company accepted tenders from holders of a total of $28,067,000 in aggregate principal amount of the Old Debentures, consisting of $27,299,000 of the Company's 9.0% convertible subordinated debentures due July 15, 2009, and 30,720 shares of the Company's 9.75% Series B cumulative redeemable preferred stock (at $25 per share).

Cash offering. On May 10, 2002, the Company closed the sale of $29,300,000 in principal amount of its 9.0% convertible subordinated debentures due July 15, 2009, Series 5/8/02 and 305,320 shares of its 9.75% Series B cumulative redeemable preferred stock (at $25 per share).

The exchange offering and proceeds from the subsequent cash offering totaled $65 million, consisting of $56,599,000 of the Company's 9.0% convertible subordinated debentures and 336,040 shares of its 9.75% Series B cumulative redeemable preferred stock (at $25 per share). The Company will use the net proceeds from the cash offering to redeem all outstanding 8.0% convertible subordinated debentures due July 15, 2003 (in accordance with the Indenture governing the Old Debentures).

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

Comparison of the Three Months Ended March 31, 2002 and 2001

Total operating revenues were approximately $13.1 million for the three-month period ended March 31, 2002, compared to $13.2 million earned a year ago. In August of 2001, the Company sold its Camelot Plaza Shopping Center, located in San Antonio, Texas. Accordingly, total operating revenues were $13.0 million on same-store revenue for the three-month period ended March 31, 2001, normalized to account for the disposition of Camelot Shopping Center. At March 31, 2002, retail and apartment properties were 92% and 96% leased, respectively, generating operating revenues of $7.1 million and $6.0 million, respectively. First quarter operating costs were relatively consistent compared to the 2001 level. Net operating income totaled $8.7 million for the three months ended March 31, 2002, compared to $8.8 million in 2001, or $8.6 million same-store net operating income, normalized to account for the disposition of Camelot Shopping Center.

Interest expense for the three months ended March 31, 2002 decreased $676,000 from the prior year. This reduction was due to a decrease in the Company's outstanding floating rate bank debt, which totaled $2.2 million, with an average rate of 3.95% at March 31, 2002, compared to $36.9 million, with an average rate of 7.60% in the prior year.

Liquidity and Capital Resources

The primary source of working capital for the Company is net cash provided by operating activities, from which the Company funds normal operating requirements, debt service obligations, and distributions to shareholders. In addition, the Company maintains unsecured credit lines with commercial banks, which it utilizes to supplement cash provided by operating activities and to initially finance the cost of property development and redevelopment activities, portfolio acquisitions and other expenditures. At March 31, 2002, the Company had $1.3 million in cash and cash equivalents and $50 million in committed bank lines of credit facilities, of which approximately $47.8 million was available.

Utilization of the bank lines is subject to certain restrictive covenants that impose maximum borrowing levels by the Company through the maintenance of certain prescribed financial ratios.

Net cash flows provided by operating activities decreased $950,000 in 2002 compared to the same period in 2001. The decrease was principally attributable to a decrease in short-term payables.

Net cash flows used in investing activities decreased approximately $218,000 in 2002 from 2001, primarily attributable to decreased redevelopment activities.

Net cash flows provided by financing activities increased $1.9 million in 2002 from 2001 due to (i) an increase in cash proceeds of approximately $3.3 million from the issuance of common stock pursuant to the direct stock purchase and dividend reinvestment plan; (ii) increased cash dividends to shareholders of $931,000 resulting from additional shares outstanding and (iii) a $400,000 reduction in cash proceeds due to lower usage of bank lines.

On May 1, 2002, the Company completed an exchange offer for its outstanding 8.0% convertible subordinated debentures due July 15, 2003 (Old Debentures). As a result of the exchange offer, the Company accepted tenders from holders of a total of $28,067,000 in aggregate principal amount of the Old Debentures, consisting of $27,299,000 of the Company's 9.0% convertible subordinated debentures due July 15, 2009, and 30,720 shares of the Company's 9.75% Series B cumulative redeemable preferred stock (at $25 per share).

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The exchange offering and proceeds from the subsequent cash offering totaled $65 million, consisting of $56,599,000 of the Company's 9.0% convertible subordinated debentures and 336,040 shares of its 9.75% Series B cumulative redeemable preferred stock (at $25 per share). The Company will use the net proceeds from the cash offering to redeem all outstanding 8.0% convertible subordinated debentures due July 15, 2003 (in accordance with the Indenture governing the Old Debentures).

As of March 31, 2002, fourteen of the Company's properties, comprising approximately 50% of its gross investment in real estate, were subject to a total of $110.6 million in mortgage obligations, all of which are long-term, non-recourse and bear fixed rates of interest for fixed terms. The remaining fifteen properties and vacant parcels of land in the portfolio are currently unencumbered by debt. The Company anticipates that its current cash balance, operating cash flows, and borrowing capacity (including borrowings under its lines of credit) will be adequate to fund the Company's future (i) operating and administrative expenses, (ii) debt service obligations, (iii) distributions to shareholders, (iv) development activities, (v) capital improvements on existing properties, and (vi) typical repair and maintenance expenses at its properties.

The Company's current dividend policy is to pay quarterly dividends to shareholders, based upon funds from operations, as well as other factors. As funds from operations excludes the deduction of certain non-cash charges, principally depreciation

on real estate assets, quarterly dividends will typically be greater than net income and may include a tax-deferred return of capital component. The Board of Directors, on May 10, 2002, declared a cash dividend of $0.23 per share for the period January 1, 2002 through March 31, 2002, payable on June 4, 2002 to shareholders of record as of May 27, 2002.

Funds From Operations

Real estate industry analysts and the Company utilize the concept of funds from operations as an important analytical measure of a Real Estate Investment Trust's financial performance. The Company considers funds from operations in evaluating its operating results and its dividend policy, as previously mentioned, is also based, in part, on the concept of funds from operations.

Funds from operations (FFO) is defined by the Company as net income, excluding gains or losses from sales of property and those items defined as extraordinary under accounting principles generally accepted in the United States of America (GAAP), certain non-recurring charges, plus depreciation on real estate assets and after adjustments for unconsolidated partnerships to reflect funds from operations on the same basis. Funds from operations do not represent cash flows from operations as defined by GAAP, nor is it indicative that cash flows are adequate to fund all cash needs, including distributions to shareholders. Funds from operations should not be considered as an alternative to net income as defined by GAAP or to cash flows as a measure of liquidity. A reconciliation of net income to basic and diluted funds from operations is presented below (in thousands):

	Quarter Ended March 31			
	2002		2001	
	($000)	Shares	($000)	Share
Net Income	$1,191	12,236	$ 663	8,107
Additions:				
Depreciation	2,823		2,833	
Partnership depreciation	9		9	
Deductions:				
Minority depreciation	14		12	
Amortization costs	149		157	
Funds from Operations - Basic	$3,860	12,236	$3,336	8,107
Interest on convertible debentures	1,238		1,238	
Amortization of debenture issuance costs	61		60	
Funds from Operations - Diluted	$5,159	17,073	$4,634	12,944

Effects of Inflation

Substantially all of the Company's retail leases contain provisions designed to provide the Company with a hedge against inflation. Most of the Company's retail leases contain provisions which enable the Company to receive percentage rentals based on tenant sales in excess of a stated breakpoint and/or provide for periodic increases in minimum rent during the lease term. The majority of the Company's retail leases are for terms of less than ten years, which allows the

Company to adjust rentals to changing market conditions. In addition, most retail leases require tenants to pay a contribution towards property operating expenses, thereby reducing the Company's exposure to higher costs caused by inflation. The Company's apartment leases are written for short terms, generally six to twelve months, and are adjusted according to changing market conditions.

New Accounting Pronouncements

Business Combinations and Goodwill. In July 2001, the Financial Accounting Standards Board issued Statement 141, Business Combinations, and Statement 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method

of accounting be used for all business combinations subsequent to June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. In accordance with Statement 141, we are accounting for all business combinations initiated or completed after June 30, 2001 using the purchase method of accounting. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provision of Statement 142. Statement 142 was adopted by the Company effective January 1, 2002 and requires that the Company reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period. No such impairment losses were recognized in the first quarter of 2002.

In August 2001, the Financial Accounting Standards Board issued Statement 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Statement 144) which supersedes FASB Statement 121, Accounting for the Impairment of Long-Lived Assets to Be Disposed Of (Statement 121). Statement 144 retains the fundamental provisions in Statement 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with Statement 121. Statement 144 was adopted by the Company effective January 1, 2002. Its adoption had no material impact on the Company's financial statements because the impairment assessment under Statement 144 is largely unchanged from Statement 121.

Future Results

This Form 10-Q and other documents prepared and statements made by the Company, may contain certain forward-looking statements that are subject to risk and uncertainty. Investors and potential investors in the Company's securities are cautioned that a number of factors could adversely affect the Company and cause actual results to differ materially from those in the forward-looking statements, including, but not limited to (a) the inability to lease current or future vacant space in the Company's properties; (b) decisions by tenants and anchor tenants who own their space to close stores at the Company's properties; (c) the inability of tenants to pay rent and other expenses; (d) tenant financial difficulties; (e) general economic and world conditions, including threats to the United States homeland from unfriendly factions; (f) decreases in rental rates available from tenants; (g) increases in operating costs at the Company's properties; (h) lack of availability of financing for acquisition, development and rehabilitation of properties by the Company; (i) possible dispositions of mature properties since the Company is continuously engaged in the examination of its various lines of business; (j) increases in interest rates; (k) a general economic downturn resulting in lower retail sales and causing downward pressure on occupancies and rents at retail properties; as well as (l) the adverse tax consequences if the Company were to fail to qualify as a REIT in any taxable year.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We incorporate by reference the disclosure contained in Item 7a, Quantitative and Qualitative Disclosures About Market Risk, of the Company's Form 10-K, for the year ended December 31, 2001. There have been no material changes during the first three months of 2002.

PART II

Other Information

Item 1. Legal Proceedings.

There are no pending legal proceedings to which the Company is a party or to which any of its properties is subject, which in the opinion of management and its litigation counsel has resulted or will result in any material adverse effect on the financial position of the Company.

Item 2. Changes in Securities.

None.

Item 3. Defaults upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits
None

(b) Reports on Form 8-K
None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SIZELER PROPERTY INVESTORS, INC.
(Registrant)

By: /S/ ROBERT A. WHELAN

Robert A. Whelan
Chief Financial Officer

Date: May 14, 2002