EASTGROUP PROPERTIES INC
Form 10-Q
July 23, 2013

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 QUARTER ENDED JUNE 30, 2013 COMMISSION FILE NUMBER 1-07094

EASTGROUP PROPERTIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MARYLAND	13-2711135
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

190 EAST CAPITOL STREET SUITE 400 JACKSON, MISSISSIPPI	39201
(Address of principal executive offices)	(Zip code)

Registrant's telephone number: (601) 354-3555

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES (x) NO ( )

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer (x) Accelerated Filer ( ) Non-accelerated Filer ( ) Smaller Reporting Company ( )

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ( ) NO (x)

The number of shares of common stock, $.0001 par value, outstanding as of July 19, 2013 was 30,444,453.

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES

FORM 10-Q

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EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Real estate properties	$1,736,467	1,619,777
Development	145,531	148,255
	1,881,998	1,768,032
Less accumulated depreciation	(522,520)	(496,247)
	1,359,478	1,271,785
Unconsolidated investment	2,760	2,743
Cash	10	1,258
Other assets	90,327	78,316
TOTAL ASSETS	$1,452,575	1,354,102
LIABILITIES AND EQUITY		
LIABILITIES		
Mortgage notes payable	$595,460	607,766
Unsecured term loans payable	130,000	130,000
Notes payable to banks	176,933	76,160
Accounts payable and accrued expenses	35,350	28,914
Other liabilities	20,067	20,086
Total Liabilities	957,810	862,926
EQUITY		
Stockholders' Equity:		
Common shares; $.0001 par value; 70,000,000 shares authorized; 30,306,245 shares issued and outstanding at June 30, 2013 and 29,928,490 at December 31, 2012	3	3
Excess shares; $.0001 par value; 30,000,000 shares authorized; no shares issued	—	—
Additional paid-in capital on common shares	750,762	731,950
Distributions in excess of earnings	(262,723)	(245,249)
Accumulated other comprehensive income (loss)	1,948	(392)
Total Stockholders' Equity	489,990	486,312
Noncontrolling interest in joint ventures	4,775	4,864
Total Equity	494,765	491,176
TOTAL LIABILITIES AND EQUITY	$1,452,575	1,354,102

See accompanying Notes to Consolidated Financial Statements (unaudited).

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
REVENUES				
Income from real estate operations	$49,040	46,184	97,268	92,566
Other income	139	14	186	28
	49,179	46,198	97,454	92,594
EXPENSES				
Expenses from real estate operations	13,684	13,334	27,246	26,332
Depreciation and amortization	16,328	15,442	31,943	31,175
General and administrative	2,777	2,536	6,141	5,652
Acquisition costs	138	—	167	19
	32,927	31,312	65,497	63,178
OPERATING INCOME	16,252	14,886	31,957	29,416
OTHER INCOME (EXPENSE)				
Interest expense	(8,717)	(8,977)	(17,338)	(18,418)
Other	255	172	479	343
INCOME FROM CONTINUING OPERATIONS	7,790	6,081	15,098	11,341
DISCONTINUED OPERATIONS				
Income from real estate operations	—	134	—	228
Gain on sales of nondepreciable real estate investments, net of tax	—	—	—	167
Gain on sales of real estate investments	—	1,869	—	1,869
INCOME FROM DISCONTINUED OPERATIONS	—	2,003	—	2,264
NET INCOME	7,790	8,084	15,098	13,605
Net income attributable to noncontrolling interest in joint ventures	(147)	(111)	(301)	(230)
NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS	7,643	7,973	14,797	13,375
Other comprehensive income - cash flow hedge	2,118	—	2,340	—
TOTAL COMPREHENSIVE INCOME	$9,761	7,973	17,137	13,375
BASIC PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Income from continuing operations	$0.25	0.21	0.49	0.40
Income from discontinued operations	—	0.07	—	0.08
Net income attributable to common stockholders	$0.25	0.28	0.49	0.48
Weighted average shares outstanding	29,991	28,246	29,900	27,946
DILUTED PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Income from continuing operations	$0.25	0.21	0.49	0.40
Income from discontinued operations	—	0.07	—	0.08
Net income attributable to common stockholders	$0.25	0.28	0.49	0.48
Weighted average shares outstanding	30,096	28,341	29,990	28,024

AMOUNTS ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Income from continuing operations	$7,643	5,970	14,797	11,111
Income from discontinued operations	—	2,003	—	2,264
Net income attributable to common stockholders	$7,643	7,973	14,797	13,375

See accompanying Notes to Consolidated Financial Statements (unaudited).

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)
(UNAUDITED)

	Common Stock	Additional Paid-In Capital	Distributions in Excess of Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest in Joint Ventures	Total
BALANCE, DECEMBER 31, 2012	$3	731,950	(245,249)	(392)	4,864	491,176
Net income	—	—	14,797	—	301	15,098
Net unrealized change in fair value of interest rate swap	—	—	—	2,340	—	2,340
Common dividends declared – $1.06 per share	—	—	(32,271)	—	—	(32,271)
Stock-based compensation, net of forfeitures	—	3,258	—	—	—	3,258
Issuance of 282,763 shares of common stock, common stock offering, net of expenses	—	15,857	—	—	—	15,857
Issuance of 4,500 shares of common stock, options exercised	—	120	—	—	—	120
Issuance of 1,843 shares of common stock, dividend reinvestment plan	—	105	—	—	—	105
Withheld 9,412 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock	—	(528)	—	—	—	(528)
Distributions to noncontrolling interest	—	—	—	—	(390)	(390)
BALANCE, JUNE 30, 2013	$3	750,762	(262,723)	1,948	4,775	494,765

See accompanying Notes to Consolidated Financial Statements (unaudited).

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Six Months Ended June 30, 2013	2012
OPERATING ACTIVITIES		
Net income	$ 15,098	13,605
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization from continuing operations	31,943	31,175
Depreciation and amortization from discontinued operations	—	382
Stock-based compensation expense	2,327	2,033
Gain on sales of land and real estate investments	—	(2,036)
Changes in operating assets and liabilities:		
Accrued income and other assets	2,745	1,573
Accounts payable, accrued expenses and prepaid rent	743	(5,020)
Other	(62)	(151)
NET CASH PROVIDED BY OPERATING ACTIVITIES	52,794	41,561
INVESTING ACTIVITIES		
Real estate development	(40,165)	(24,695)
Purchases of real estate	(69,952)	(3,475)
Real estate improvements	(9,501)	(9,398)
Proceeds from sales of real estate investments	—	7,399
Repayments on mortgage loans receivable	52	3
Changes in receivable for development infrastructure cost reimbursements	(1,351)	—
Changes in accrued development costs	2,970	(2,699)
Changes in other assets and other liabilities	(4,426)	(4,770)
NET CASH USED IN INVESTING ACTIVITIES	(122,373)	(37,635)
FINANCING ACTIVITIES		
Proceeds from bank borrowings	194,775	143,560
Repayments on bank borrowings	(94,002)	(177,131)
Proceeds from mortgage notes payable	—	54,000

Principal payments on mortgage notes payable	(12,296)	(58,201)
Debt issuance costs	(1,459)	(821)
Distributions paid to stockholders (not including dividends accrued on unvested restricted stock)	(31,874)	(29,717)
Proceeds from common stock offerings	13,877	64,202
Proceeds from exercise of stock options	120	108
Proceeds from dividend reinvestment plan	105	118
Other	(915)	(100)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	68,331	(3,982)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,248)	(56)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,258	174
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$10	118
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest, net of amount capitalized of $2,560 and $2,129 for 2013 and 2012, respectively	$16,657	17,938

See accompanying Notes to Consolidated Financial Statements (unaudited).

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) BASIS OF PRESENTATION

The accompanying unaudited financial statements of EastGroup Properties, Inc. ("EastGroup" or "the Company") have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In management's opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the financial statements contained in the 2012 annual report on Form 10-K and the notes thereto.

Certain reclassifications have been made in the 2012 consolidated financial statements to conform to the 2013 presentation.

(2) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of EastGroup, its wholly-owned subsidiaries and its investment in any joint ventures in which the Company has a controlling interest. At June 30, 2013 and December 31, 2012, the Company had a controlling interest in two joint ventures: the 80% owned University Business Center and the 80% owned Castilian Research Center. The Company records 100% of the joint ventures' assets, liabilities, revenues and expenses with noncontrolling interests provided for in accordance with the joint venture agreements. The equity method of accounting is used for the Company's 50% undivided tenant-in-common interest in Industry Distribution Center II. All significant intercompany transactions and accounts have been eliminated in consolidation.

(3) USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses during the reporting period and to disclose material contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(4) REAL ESTATE PROPERTIES

EastGroup has one reportable segment – industrial properties. These properties are concentrated in major Sunbelt markets of the United States, primarily in the states of Florida, Texas, Arizona, California and North Carolina, have similar economic characteristics and also meet the other criteria permitting the properties to be aggregated into one reportable segment.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows (including estimated future expenditures necessary to substantially complete the asset) expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of June 30, 2013 and December 31, 2012, the Company determined that no impairment charges on the Company's real estate properties were necessary.

Depreciation of buildings and other improvements is computed using the straight-line method over estimated useful lives of generally 40 years for buildings and 3 to 15 years for improvements. Building improvements are capitalized, while maintenance and repair expenses are charged to expense as incurred. Significant renovations and improvements that improve or extend the useful life of the assets are capitalized. Depreciation expense for continuing and discontinued operations was $13,494,000 and $26,551,000 for the three and six months ended June 30, 2013, respectively, and $12,899,000 and $25,977,000 for the same periods in 2012.

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Company’s real estate properties at June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Real estate properties:		
Land	$262,063	244,199
Buildings and building improvements	1,183,020	1,102,597
Tenant and other improvements	291,384	272,981
Development	145,531	148,255
	1,881,998	1,768,032
Less accumulated depreciation	(522,520)	(496,247)
	$1,359,478	1,271,785

(5) DEVELOPMENT

During the period in which a property is under development, costs associated with development (i.e., land, construction costs, interest expense, property taxes and other direct and indirect costs associated with development) are aggregated into the total capitalized costs of the property. Included in these costs are management’s estimates for the portions of internal costs (primarily personnel costs) deemed directly or indirectly related to such development activities. The internal costs are allocated to specific development properties based on construction activity. As the property becomes occupied, depreciation commences on the occupied portion of the building, and costs are capitalized only for the portion of the building that remains vacant. When the property becomes 80% occupied or one year after completion of the shell construction (whichever comes first), capitalization of development costs ceases. The properties are then transferred to real estate properties, and depreciation commences on the entire property (excluding the land).

(6) BUSINESS COMBINATIONS AND ACQUIRED INTANGIBLES

Upon acquisition of real estate properties, the Company applies the principles of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, Business Combinations, which requires that acquisition-related costs be recognized as expenses in the periods in which the costs are incurred and the services are received. The Codification also provides guidance on how to properly determine the allocation of the purchase price among the individual components of both the tangible and intangible assets based on their respective fair values. Goodwill is recorded when the purchase price exceeds the fair value of the assets and liabilities acquired. Factors considered by management in allocating the cost of the properties acquired include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. The allocation to tangible assets (land, building and improvements) is based upon management's determination of the value of the property as if it were vacant using discounted cash flow models. The Company determines whether any financing assumed is above or below market based upon comparison to similar financing terms for similar properties. The cost of the properties acquired may be adjusted based on indebtedness assumed from the seller that is determined to be above or below market rates.

The purchase price is also allocated among the following categories of intangible assets: the above or below market component of in-place leases, the value of in-place leases, and the value of customer relationships. The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using a discount rate reflecting the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term, and (ii) management’s estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above and below market leases are included in Other Assets and Other Liabilities, respectively, on the Consolidated Balance Sheets and are amortized to rental income over the remaining terms of the respective leases. The total amount of intangible assets is further allocated to in-place lease values and customer relationship values based upon management’s assessment of their respective values. These intangible assets are included in Other Assets on the Consolidated Balance Sheets and are amortized over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable.

Amortization expense for in-place lease intangibles was $999,000 and $1,777,000 for the three and six months ended June 30, 2013, respectively, and $977,000 and $2,046,000 for the same periods in 2012. Amortization of above and below market leases increased rental income by $21,000 and decreased rental income by $25,000 for the three and six months ended June 30, 2013, respectively, and decreased rental income by $114,000 and $234,000 for the same periods in 2012.

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

During the first six months of 2013, EastGroup acquired Northfield Distribution Center (eight buildings totaling 788,000 square feet) in Dallas, Texas. The Company purchased these properties for a total cost of $69,952,000, of which $63,184,000 was allocated to real estate properties. The Company allocated $12,471,000 of the total purchase price to land using third party land valuations for the Dallas market. The market values are considered to be Level 3 inputs as defined by ASC 820, Fair Value Measurements and Disclosures (see Note 17 for additional information on ASC 820). Intangibles associated with the purchase of real estate were allocated as follows: $8,156,000 to in-place lease intangibles, $158,000 to above market leases (both included in Other Assets on the Consolidated Balance Sheets), and $1,546,000 to below market leases (included in Other Liabilities on the Consolidated Balance Sheets). These costs are amortized over the remaining lives of the associated leases in place at the time of acquisition.

During 2012, the Company acquired Madison Distribution Center in Tampa, Florida; Wiegman Distribution Center II in Hayward, California; and Valwood Distribution Center in Dallas, Texas. The Company purchased these properties for a total cost of $51,750,000, of which $48,934,000 was allocated to real estate properties. The Company allocated $7,435,000 of the total purchase price to land using third party land valuations for the Tampa, Hayward and Dallas markets. Intangibles associated with the purchase of real estate were allocated as follows: $3,305,000 to in-place lease intangibles, $244,000 to above market leases (both included in Other Assets on the Consolidated Balance Sheets), and $733,000 to below market leases (included in Other Liabilities on the Consolidated Balance Sheets).

EastGroup expensed acquisition-related costs of $138,000 and $167,000 during the three and six months ended June 30, 2013, respectively. The Company did not expense any acquisition related costs during the three months ended June 30, 2012 and expensed $19,000 during the six months ended June 30, 2012.

The Company periodically reviews the recoverability of goodwill (at least annually) and the recoverability of other intangibles (on a quarterly basis) for possible impairment. In management's opinion, no impairment of goodwill and other intangibles existed at June 30, 2013 and December 31, 2012.

(7) REAL ESTATE HELD FOR SALE/DISCONTINUED OPERATIONS

The Company considers a real estate property to be held for sale when it meets the criteria established under ASC 360, Property, Plant, and Equipment, including when it is probable that the property will be sold within a year. Real estate properties held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale. In accordance with the guidelines established under the Codification, the results of operations for the operating properties sold or held for sale during the reported periods are shown under Discontinued Operations on the Consolidated Statements of Income and Comprehensive Income. Interest expense is not generally allocated to the properties held for sale or whose operations are included under Discontinued Operations unless the mortgage is required to be paid in full upon the sale of the property.

The Company did not sell any real estate properties during the first six months of 2013. During the first quarter of 2012, EastGroup's taxable REIT subsidiary sold two properties in Tampa, which collectively contain 10,500 square feet, for $578,000 and recognized an after-tax gain of $167,000. During the second quarter of 2012, the Company sold one operating property (174,000 square feet) in Phoenix for $7,019,000 and recognized a gain of $1,869,000. Additionally, later in 2012, the Company sold one operating property (259,000 square feet) in Tulsa for $10,300,000 and recognized a gain of $4,474,000.

The following table presents the components of revenue and expense for the properties sold or held for sale during 2013 and 2012.

	Three Months Ended June 30,	Six Months Ended June 30,

DISCONTINUED OPERATIONS	2013	2012	2013	2012
	(In thousands)			
Income from real estate operations	$—	417	—	833
Expenses from real estate operations	—	(113)	—	(223)
Property net operating income from discontinued operations	—	304	—	610
Depreciation and amortization	—	(170)	—	(382)
Income from real estate operations	—	134	—	228
Gain on sales of nondepreciable real estate investments, net of tax	—	—	—	167
Gain on sales of real estate investments	—	1,869	—	1,869
Income from discontinued operations	$—	2,003	—	2,264

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(8) OTHER ASSETS

A summary of the Company's Other Assets follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Leasing costs (principally commissions)	$43,441	41,290
Accumulated amortization of leasing costs	(17,765)	(17,543)
Leasing costs (principally commissions), net of accumulated amortization	25,676	23,747
Straight-line rents receivable	22,514	22,153
Allowance for doubtful accounts on straight-line rents receivable	(373)	(409)
Straight-line rents receivable, net of allowance for doubtful accounts	22,141	21,744
Accounts receivable	2,694	3,477
Allowance for doubtful accounts on accounts receivable	(346)	(373)
Accounts receivable, net of allowance for doubtful accounts	2,348	3,104
Acquired in-place lease intangibles	17,511	11,848
Accumulated amortization of acquired in-place lease intangibles	(3,799)	(4,516)
Acquired in-place lease intangibles, net of accumulated amortization	13,712	7,332
Acquired above market lease intangibles	1,982	2,443
Accumulated amortization of acquired above market lease intangibles	(605)	(976)
Acquired above market lease intangibles, net of accumulated amortization	1,377	1,467
Mortgage loans receivable	9,304	9,357
Discount on mortgage loans receivable	(27)	(34)
Mortgage loans receivable, net of discount	9,277	9,323
Loan costs	8,490	8,476
Accumulated amortization of loan costs	(4,160)	(4,960)
Loan costs, net of accumulated amortization	4,330	3,516
Interest rate swap asset	1,744	—
Receivable for development infrastructure cost reimbursements	1,351	—
Goodwill	990	990
Prepaid expenses and other assets	7,381	7,093
Total Other Assets	$90,327	78,316

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EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(9) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

A summary of the Company’s Accounts Payable and Accrued Expenses follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Property taxes payable	$12,901	12,107
Development costs payable	10,140	7,170
Interest payable	2,660	2,615
Dividends payable on unvested restricted stock	1,588	1,191
Other payables and accrued expenses	8,061	5,831
Total Accounts Payable and Accrued Expenses	$35,350	28,914

(10) OTHER LIABILITIES

A summary of the Company’s Other Liabilities follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Security deposits	$10,530	9,668
Prepaid rent and other deferred income	6,434	7,930
Acquired below-market lease intangibles	3,006	1,541
Accumulated amortization of below-market lease intangibles	(532)	(391)
Acquired below-market lease intangibles, net of accumulated amortization	2,474	1,150
Interest rate swap liability	—	645
Other liabilities	629	693
Total Other Liabilities	$20,067	20,086

(11) COMPREHENSIVE INCOME

Total Comprehensive Income is comprised of net income plus all other changes in equity from non-owner sources and is presented on the Consolidated Statements of Income and Comprehensive Income. The components of Accumulated Other Comprehensive Income (Loss) are presented in the Company's Consolidated Statement of Changes in Equity and are summarized below. See Note 12 for information regarding the Company's interest rate swap.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):				
Balance at beginning of period	$(170)	—	(392)	—
Change in fair value of interest rate swap	2,118	—	2,340	—
Balance at end of period	$1,948	—	1,948	—

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(12) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risk, including interest rate, liquidity and credit risk primarily by managing the amount, sources, and duration of its debt funding and, to a limited extent, the use of derivative instruments.

Specifically, the Company has entered into derivative instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative instruments, described below, are used to manage differences in the amount, timing, and duration of the Company's known or expected cash payments principally related to certain of the Company's borrowings.

The Company's objective in using interest rate derivatives is to manage exposure to interest rate movements and add stability to interest expense. To accomplish this objective, the Company uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The Company currently has one $80,000,000 interest rate swap outstanding that is used to hedge the variable cash flows associated with an $80,000,000 unsecured loan. Both the swap and the unsecured loan were executed during the third quarter of 2012. The interest rate swap converts the loan's LIBOR rate to a fixed interest rate, and the Company has concluded that the hedging relationship is highly effective. The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives, which is immaterial for the periods reported, is recognized directly in earnings (included in Other on the Consolidated Statements of Income and Comprehensive Income).

Amounts reported in Other Comprehensive Income related to derivatives will be reclassified to Interest Expense as interest payments are made on the Company's variable-rate debt. The Company estimates that an additional $567,000 will be reclassified from Other Comprehensive Income as an increase to Interest Expense over the next twelve months.

As of January 1, 2013, the Company changed its valuation methodology for over-the-counter (“OTC”) derivatives to discount cash flows based on Overnight Index Swap (“OIS”) rates. Uncollateralized or partially-collateralized trades are discounted at OIS, but include appropriate economic adjustments for funding costs (i.e., a LIBOR-OIS basis adjustment to approximate uncollateralized cost of funds) and credit risk. The Company is making the changes to better align its inputs, assumptions, and pricing methodologies with those used in its principal market by most dealers and major market participants. The changes in valuation methodology are applied prospectively as a change in accounting estimate and are immaterial to the Company's financial statements.

As of June 30, 2013 and December 31, 2012, the Company had the following outstanding interest rate derivative that is designated as a cash flow hedge of interest rate risk:

Interest Rate Derivative	Notional Amount
Interest Rate Swap	$80,000,000

The table below presents the fair value of the Company's derivative financial instrument as well as its classification on the Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012. See Note 17 for additional information on the fair value of the Company's interest rate swap.

	Derivatives As of June 30, 2013		Derivatives As of December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other Assets	$1,744,000	Other Liabilities	$645,000

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The table below presents the effect of the Company's derivative financial instruments on the Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS				
Interest Rate Swaps:				
Amount of income recognized in Other Comprehensive Income on derivative	$ 1,966	—	2,039	—
Amount of loss reclassified from Accumulated Other Comprehensive Income (Loss) into Interest Expense	(152)	—	(301)	—

See Note 11 for additional information on the Company's Accumulated Other Comprehensive Income (Loss) resulting from its interest rate swap.

Derivative financial agreements expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. The Company believes it minimizes the credit risk by transacting with major credit-worthy financial institutions.

The Company has an agreement with its derivative counterparty containing a provision stating that the Company could be declared in default on its derivative obligations if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender.

As of June 30, 2013, the fair value of derivatives in an asset position related to these agreements was $1,744,000. If the Company breached any of the contractual provisions of the derivative contract, it would be required to settle its obligation under the agreement at the swap termination value. As of June 30, 2013, the swap termination value was an asset in the amount of $1,800,000.

(13) EARNINGS PER SHARE

The Company applies ASC 260, Earnings Per Share, which requires companies to present basic and diluted earnings per share (EPS). Basic EPS represents the amount of earnings for the period attributable to each share of common stock outstanding during the reporting period. The Company’s basic EPS is calculated by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding.

Diluted EPS represents the amount of earnings for the period attributable to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. The Company calculates diluted EPS by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding plus the dilutive effect of unvested restricted stock and stock options had the options been exercised. The dilutive effect of stock options and their equivalents (such as unvested restricted stock) was determined using the treasury stock method which assumes exercise of the options as of the beginning of the period or when issued, if later, and assumes proceeds from the exercise of options are used to purchase common stock at the average market price during the period.

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Reconciliation of the numerators and denominators in the basic and diluted EPS computations is as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(In thousands)			
BASIC EPS COMPUTATION FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Numerator – net income attributable to common stockholders	$7,643	7,973	14,797	13,375
Denominator – weighted average shares outstanding	29,991	28,246	29,900	27,946
DILUTED EPS COMPUTATION FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Numerator – net income attributable to common stockholders	$7,643	7,973	14,797	13,375
Denominator:				
Weighted average shares outstanding	29,991	28,246	29,900	27,946
Common stock options	1	3	2	4
Unvested restricted stock	104	92	88	74
Total Shares	30,096	28,341	29,990	28,024

(14) STOCK-BASED COMPENSATION

Equity Incentive Plan

In May 2004, the stockholders of the Company approved the EastGroup Properties, Inc. 2004 Equity Incentive Plan (the “2004 Plan”) that authorized the issuance of up to 1,900,000 shares of common stock to employees in the form of options, stock appreciation rights, restricted stock, deferred stock units, performance shares, bonus stock or stock in lieu of cash compensation. The 2004 Plan was further amended by the Board of Directors in September 2005 and December 2006.

In April 2013, the Board of Directors adopted the EastGroup Properties, Inc. 2013 Equity Incentive Plan (the “2013 Equity Plan”) upon the recommendation of the Compensation Committee; the 2013 Equity Plan was approved by the Company's stockholders and became effective May 29, 2013. The 2013 Equity Plan replaced the 2004 Plan and the 2005 Directors Equity Incentive Plan. The 2013 Equity Plan permits the grant of awards to employees and directors with respect to 2,000,000 shares of common stock. Total shares available for grant were 1,993,088 at June 30, 2013. Typically, the Company issues new shares to fulfill stock grants.

Stock-based compensation cost was $1,008,000 and $2,839,000 for the three and six months ended June 30, 2013, respectively, of which $141,000 and $692,000 were capitalized as part of the Company’s development costs. For the three and six months ended June 30, 2012, stock-based compensation cost was $848,000 and $2,340,000, respectively, of which $224,000 and $457,000 were capitalized as part of the Company's development costs.

Equity Awards

In the second quarter of 2013, the Company's Board of Directors approved an equity incentive plan for its executive officers based upon the attainment of certain annual performance goals. These goals are for the year ending December 31, 2013, so any shares issued upon attainment of these goals will be issued after that date. The number of shares to be issued could range from zero to 42,780. These shares will vest 20% on the date shares are determined and awarded and generally will vest 20% per year on each January 1 for the subsequent four years.

Also in the second quarter of 2013, EastGroup's Board of Directors approved a long-term equity compensation plan for the Company's executive officers. The awards will be based on the results of the Company's total shareholder return, both on an absolute basis for 2013 as well as on a relative basis compared to the NAREIT Equity Index, NAREIT Industrial Index and Russell 2000 Index over the five-year period ending December 31, 2013. Any shares issued pursuant to this plan will be issued after December 31, 2013. The number of shares issued could range from zero to 45,288. These shares will vest 25% on the date shares are determined and awarded and generally will vest 25% per year on each January 1 for the subsequent three years.

Notwithstanding the foregoing, shares issued to the Company's Chief Executive Officer, David H. Hoster II, and Chief Financial Officer, N. Keith McKey, will become fully vested no later than January 1, 2016 and April 6, 2016, respectively.

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Following is a summary of the total restricted shares granted, forfeited and delivered (vested) to employees with the related weighted average grant date fair value share prices. Of the shares that vested in the first six months of 2013, the Company withheld 17,927 shares to satisfy the tax obligations for those employees who elected this option as permitted under the applicable equity plan. As of the vesting date, the fair value of shares that vested during the first six months of 2013 was $1,700,000.

Award Activity:	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	273,039	$46.55	212,206	$42.84
Granted	—	—	91,149	57.10
Forfeited	—	—	—	—
Vested	—	—	(30,316)	52.32
Unvested at end of period	273,039	$46.55	273,039	$46.55

Directors Equity Plan

The Company previously had a directors equity plan that was approved by stockholders and adopted in 2005 (the "2005 Plan"), which authorized the issuance of up to 50,000 shares of common stock through awards of shares and restricted shares granted to non-employee directors of the Company. The 2005 Plan was further amended by the Board of Directors in May 2006, May 2008, May 2011 and May 2012. The 2005 Plan was replaced by the 2013 Equity Plan effective May 29, 2013, and the Board of Directors has adopted a policy under the 2013 Equity Plan pursuant to which awards will be made to non-employee Directors. The current policy provides that the Company shall automatically award an annual retainer share award to each non-employee Director who has been elected or reelected as a member of the Board of Directors at the Annual Meeting. The number of shares shall be equal to $70,000 divided by the fair market value of a share on the date of such election. If a non-employee Director is elected or appointed to the Board of Directors other than at an Annual Meeting of the Company, the annual retainer share award shall be pro rated. The policy also provides that each new non-employee Director appointed or elected will receive an automatic award of restricted shares of Common Stock on the effective date of election or appointment equal to $25,000 divided by the fair market value of the Company's Common Stock on such date. These restricted shares will vest over a four-year period upon the performance of future service as a Director, subject to certain exceptions. Stock-based compensation expense for directors was $90,000 and $180,000 for the three and six months ended June 30, 2013, respectively, and $75,000 and $150,000 for the same periods in 2012.

(15) RISKS AND UNCERTAINTIES

The state of the overall economy can significantly impact the Company’s operational performance and thus impact its financial position. Should EastGroup experience a significant decline in operational performance, it may affect the Company’s ability to make distributions to its shareholders, service debt, or meet other financial obligations.

(16) RECENT ACCOUNTING PRONOUNCEMENTS

EastGroup has evaluated all Accounting Standards Updates (ASUs) released by the FASB through the date the financial statements were issued and determined that the following ASUs apply to the Company.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide detail about those amounts. ASU 2013-02 was effective for interim and annual reporting periods beginning after December 15, 2012. The Company has adopted the provisions of ASU 2013-02 and provided the necessary disclosures beginning with the period ended March 31, 2013.

(17) FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also provides guidance for using fair value to measure financial assets and liabilities. The Codification requires disclosure of the level within the fair value hierarchy in which the fair value measurements fall, including measurements using quoted prices in active markets for identical assets or liabilities (Level 1), quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active (Level 2), and significant valuation assumptions that are not readily observable in the market (Level 3).

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The following table presents the carrying amounts and estimated fair values of the Company’s financial instruments in accordance with ASC 820 at June 30, 2013 and December 31, 2012.

	June 30, 2013		December 31, 2012	
	Carrying Amount (1)	Fair Value	Carrying Amount (1)	Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$10			