KONOVER PROPERTY TRUST INC
Form 10-Q
November 14, 2002
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FORM 10-Q

Securities and Exchange Commission
Washington, D.C. 20549

[X] 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

Commission File Number 1-11998

KONOVER PROPERTY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland **(State or other jurisdiction of incorporation or organization)**	56-1819372 **(I.R.S. Employer Identification No.)**
3434 Kildaire Farm Road Suite 200 Raleigh, North Carolina **(Address of principal executive offices)**	27606 **(Zip Code)**

(919) 372-3000
(Registrant s telephone number, including area code)

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 _ü_ 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: 31,915,014 shares of Common Stock, $0.01 par value, as of November 14, 2002.

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KONOVER PROPERTY TRUST, INC.

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PART I

Item 1. Consolidated Financial Statements (Unaudited)

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KONOVER PROPERTY TRUST, INC.

Consolidated Balance Sheets

	September 30, 2002 (Unaudited)	December 31, 2001 (Audited)
	(in thousands)	
Assets		
Income producing properties:		
Land	$ 44,440	$ 43,725
Buildings and improvements	246,601	240,993
Deferred leasing and other charges	15,214	14,361
	306,255	**299,079**
Accumulated depreciation and amortization	(40,765)	(33,373)
	265,490	**265,706**
Properties under development/projects in process	416	4,694
Properties held for sale	9,387	60,701
Other assets:		
Cash and cash equivalents	27,161	17,615
Restricted cash	6,845	4,956
Tenant and other receivables, net allowance of $2,886 and $2,948 at September 30, 2002 and December 31, 2001, respectively	3,137	5,406
Notes receivable	418	477
Investment in and advances to unconsolidated entities	10,390	18,606
Deferred charges and other assets	4,035	6,855
	$ 327,279	**$ 385,016**
Liabilities and Stockholders Equity		
Liabilities:		
Debt on income properties	$ 180,430	$ 229,709
Capital lease obligations	40	196
Accounts payable and other liabilities	8,914	10,732
	189,384	**240,637**
Commitments and contingencies		
Minority interests	**3,386**	**3,680**
Stockholders equity:		
Convertible preferred stock, Series A, 5,000,000 shares authorized, 780,680 issued and outstanding at September 30, 2002 and December 31, 2001	18,679	18,679
Stock purchase warrants	9	9
Common stock, $0.01 par value, 100,000,000 shares authorized 31,915,014 and 31,647,387 issued and outstanding at September 30, 2002 and December 31, 2001, respectively	319	316
Additional paid-in capital	290,943	290,453
Accumulated deficit	(175,414)	(168,756)
Deferred compensation - Restricted stock plan	(27)	(2)
	134,509	**140,699**
	$ 327,279	**$ 385,016**

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

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KONOVER PROPERTY TRUST, INC.

Consolidated Statements of Operations
(Unaudited)

	Three Months ended September 30, 2002	2001
	(in thousands, except per share data)	
Rental operations:		
Revenues:		
Base rents	$ 7,043	$ 16,061
Percentage rents	98	139
Property operating cost recoveries	1,523	3,945
Other	207	446
	8,871	20,591
Property operating costs:		
Common area maintenance	961	2,828
Utilities	183	856
Real estate taxes	889	2,216
Insurance	296	381
Other	685	1,127
	3,014	7,408
Depreciation and amortization	2,654	3,153
	5,668	**10,561**
	3,203	**10,030**
Other expenses:		
General and administrative	1,983	1,817
Stock compensation amortization	54	113
Severance and other related costs	367	899
Interest, net	3,555	8,083
Loss (gain) on sale of real estate	63	(476)
Abandoned transaction costs	5	24
Equity in (earnings) losses of unconsolidated entities	(372)	414
Minority interest	(107)	(2)
Loss before extraordinary item	(2,345)	(842)
Extraordinary gain on early retirement of debt		775
Net loss	(2,345)	(67)
Preferred dividends	(1)	
Net loss applicable to common stockholders	**$ (2,346)**	**$ (67)**
Basic and diluted loss per common share:		
Loss before extraordinary item applicable to common stockholders	**$ (0.07)**	**$ (0.02)**
Extraordinary item		**0.02**
Net loss applicable to common stockholders	**$ (0.07)**	**$ (0.00)**

Weighted-average number of common shares outstanding	**31,888**	**31,332**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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KONOVER PROPERTY TRUST, INC.

Consolidated Statements of Operations
(Unaudited)

	Nine Months ended September 30, 2000	Nine Months ended September 30, 2001
	(in thousands, except per share data)	
Rental operations:		
Revenues:		
Base rents	$ 22,386	$ 50,322
Percentage rents	325	669
Property operating cost recoveries	5,353	11,535
Other	690	2,216
	28,754	**64,742**
Property operating costs:		
Common area maintenance	3,066	8,267
Utilities	601	2,253
Real estate taxes	2,908	6,607
Insurance	670	1,007
Other	2,275	3,315
	9,520	21,449
Depreciation and amortization	8,031	15,686
	17,551	**37,135**
	11,203	**27,607**
Other expenses:		
General and administrative	6,522	5,481
Stock compensation amortization	140	676
Operating loss of sold management business	84	
Severance and other related costs	367	6,830
Interest, net	12,133	23,661
Adjustment to carrying value of property	(300)	105,110
(Gain) on sale of real estate	(150)	(476)
Abandoned transaction costs	36	70
Equity in (earnings) losses of unconsolidated entities	(707)	5,495
Minority interest	(264)	(3,299)
Loss before extraordinary item	(6,658)	(115,941)
Extraordinary gain on early retirement of debt		775
Net loss	(6,658)	(115,166)
Preferred dividends	(94)	(271)
Net loss applicable to common stockholders	**(6,752)**	**(115,437)**
Basic and diluted loss per common share:		
Loss before extraordinary item applicable to common stockholders	**$ (0.21)**	**$ (3.71)**
Extraordinary item		**0.02**

Net loss applicable to common stockholders	**$ (0.21)**	**$ (3.69)**
Weighted-average number of common shares outstanding	**31,848**	**31,247**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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KONOVER PROPERTY TRUST, INC.

Consolidated Statement of Stockholders Equity

Nine months ended September 30, 2002
(Unaudited)

(in thousands except per share data)

	Convertible Preferred Stock	Stock Purchase Warrants	Common Stock	Additional Paid in Capital	Accumulated Deficit	Deferred Compensation Restricted Stock Plan	Total
Balance at December 31, 2001	**$ 18,679**	**$ 9**	**$ 316**	**$ 290,453**	**$ (168,756)**	**$ (2)**	**$ 140,699**
Issuance of 267,878 restricted shares			3	440		(15)	428
Repurchase of 5,527 restricted shares				(9)			(9)
Cancellation of 5,838 restricted shares				(30)		30	
OP units converted into 10,454 shares of common stock				99			99
Conversion of restricted stock into repurchase rights				38		(55)	(17)
Distributions to preferred stockholders				(94)			(94)
Compensation under stock plans						55	55
Other				46		(40)	6
Net loss					(6,658)		(6,658)
Balance at September 30, 2002	**$ 18,679**	**$ 9**	**$ 319**	**$ 290,943**	**$ (175,414)**	**$ (27)**	**$ 134,509**

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

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KONOVER PROPERTY TRUST, INC.

Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30, 2002	Nine months ended September 30, 2001
	(in thousands)	
Cash flows from operating activities:		
Net loss	$ (6,658)	$ (115,166)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of debt premium		(391)
Minority interest	(264)	(3,299)
Extraordinary gain on early retirement of debt		(775)
Depreciation and amortization	8,031	15,686
Stock compensation amortization	140	676
Adjustments to carrying value of property	(300)	105,110
Adjustments to carrying value of other assets held for sale		4,256
(Gain) on sale of real estate	(150)	(476)
Abandoned transaction costs	36	70
Amortization of deferred financing costs	1,075	1,755
Net changes in:		
Tenant and other receivables	2,160	(2,164)
Deferred charges and other assets	519	(460)
Accounts payable and other liabilities	(2,428)	(4,245)
Restricted cash operational escrows	(2,539)	(484)
Net cash (used in) provided by operating activities	**(378)**	**93**
Cash flows from investing activities:		
Investment in income-producing properties	(2,755)	(9,773)
Net proceeds from sale of real estate	9,934	185,560
Net cash acquired in connection with Sunset KPT Investments, Inc.	1,928	
Payments received on notes receivable, net	2,210	184
Distribution from (investment in and advances to) unconsolidated entities	2,367	(854)
Purchase of remaining interest in venture	(732)	
Change in restricted cash investing	900	4,044
Net cash provided by investing activities	**13,852**	**179,161**
Cash flows from financing activities:		
Proceeds from debt on income properties		69,239
Repayment of debt on income properties	(3,396)	(232,843)
Deferred financing charges	(50)	(2,076)
Other debt repayments	(156)	(321)
Issuance of shares under employee stock purchase plan		30
Dividends paid	(94)	(8,963)
Distributions to minority member of consolidated joint venture, net	(222)	
Exercise of stock purchase rights		123
Repurchase of common stock	(10)	(121)
Net cash used in financing activities	**(3,928)**	**(174,932)**
Net increase in cash and cash equivalents	**9,546**	**4,322**
Cash and cash equivalents at beginning of period	**17,615**	**10,660**

Cash and cash equivalents at end of period	**$ 27,161**	**14,982**
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	**$ 11,492**	**$ 25,600**
Supplemental schedule of non cash investing/financing activity:	**$ 45,882**	**$**
Decrease of mortgage debt through assumption from sale of real estate		

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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Notes to Consolidated Financial Statements
September 30, 2002
(Unaudited)

1. Interim Financial Statements

Organization

Konover Property Trust, Inc. (the Company), formerly FAC Realty Trust, Inc., was incorporated on March 31, 1993 as a self-advised and self-managed real estate investment trust (REIT). The Company is principally engaged in the ownership and operation of retail shopping centers in the Southeast. The Company s revenues are primarily derived under real estate leases with national, regional and local retailing companies.

On September 30, 2002, the Company s owned properties consisted of:

1. thirty-two community shopping centers in six states aggregating approximately 4,113,000 square feet of retail space and 97,000 square feet of office space; and

2. a 230,000-square-foot, non-operating outlet center in Las Vegas which is held for sale.

In addition, the Company had investments in:

four operating community shopping center joint-ventures with 344,000 square feet; and
approximately 568 acres of undeveloped land, which is currently held for sale.

The weighted-average square feet of gross leasable area for operating shopping centers was 4.4 million square feet for the nine months ended September 30, 2002 and 9.3 million square feet for the same period in 2001.

In January 2002, the Company acquired the remaining interest in Sunset KPT Investment, Inc. from the affiliate of a director. The Company is the sole shareholder in Sunset KPT Investment, Inc., which is a wholly owned taxable REIT subsidiary. Sunset KPT Investment, Inc. has the ability to develop properties, buy and sell properties, provide equity to developers and perform third-party management, leasing and brokerage services. In July 2002, Sunset KPT Investment, Inc., through its subsidiary Mercer Mill KPT LLC, received full payment of a $2.2 million note receivable. The note receivable was partial consideration on the sale of 2,110 acres of undeveloped land in Brunswick County, North Carolina in December 2001. Also in July 2002, Sunset KPT Investment, Inc. purchased the remaining 40% interest in Brunswick Commercial LLC for approximately $0.7 million. As of September 30, 2002, Sunset KPT Investment, Inc. owned certain outparcels adjacent to the Millpond Village shopping center in Raleigh, North Carolina and Brunswick Commercial LLC which owns 568 acres of undeveloped land in Brunswick County, North Carolina. On August 8, 2002, Brunswick Commercial LLC entered into an agreement to sell 531 acres of undeveloped land in Brunswick County, North Carolina for approximately $2.5 million. On November 8, 2002, the due diligence period provided by the agreement ended with no objection from the buyer and a deposit for $0.1 million became nonrefundable. The sale is expected to close in the second quarter of 2003. Prior to January 2002, the Company held substantially all of the non-voting common stock of this taxable REIT subsidiary and all of the voting common stock was held by a company affiliated with a director of the Company. Accordingly, this entity was accounted for under the equity method for investments during 2001. The accompanying 2002 consolidated financial statements include the assets, liabilities and results of operations of Sunset KPT Investment, Inc. and subsidiaries.

On December 17, 1997, following shareholder approval, the Company changed its domicile from the State of Delaware to the State of Maryland. The reincorporation was accomplished through the merger of FAC Realty, Inc. into its Maryland subsidiary, Konover Property Trust, Inc. (formerly FAC Realty Trust, Inc.). Following the reincorporation, on December 18, 1997, the Company reorganized as an umbrella partnership real estate investment trust (an UPREIT). The Company then contributed to KPT Properties, L.P. (formerly FAC Properties, L.P.), a Delaware limited partnership (the Operating Partnership), all of its assets and liabilities. In exchange for the Company s assets, the Company received limited partnership interests (Units) in the Operating Partnership in an amount and designation that corresponded to the number and designation of outstanding shares of capital stock of the Company at the time. The Company is the sole general partner of the Operating Partnership and owns a 97% interest as of September 30, 2002. As additional limited partners are admitted to the Operating Partnership in exchange for the contribution of properties, the Company s percentage ownership in the Operating Partnership will decline. As the Company issues additional shares of capital stock, it will contribute the proceeds for that capital stock to the Operating Partnership in exchange for a number of Units equal to the number of shares that the Company issues. The Company conducts all of its business and owns all of its assets through the Operating Partnership (either directly or through subsidiaries) such that a Unit is economically equivalent to a share of the Company s common stock.

Going-Private Transaction

During 2001, the Company s board of directors created a special committee of the board of directors to evaluate strategic alternatives for the Company, including a going-private transaction or other business combinations or remaining a stand-alone public company.

On June 24, 2002, the Company announced that the board of directors approved a definitive merger agreement, subject to stockholder approval, with PSCO Acquisition Corp. (PSCO), a newly formed Maryland corporation owned by Prometheus Southeast Retail Trust (Prometheus) and Kimkon Inc. (Kimkon), a subsidiary of Kimco Realty Corporation (Kimco), to take the Company private. Prometheus owns approximately 66% of the Company and has entered into an agreement to vote in favor of the merger. Assuming Prometheus votes in favor of the merger, the merger will be approved. Approval of the merger does not require the approval of the Company s unaffiliated stockholders. The merger is scheduled to close on November 22, 2002, immediately following completion of the special stockholders meeting and vote. See footnote 2 for further discussion on the basis of long-lived assets and footnote 7 for further discussion on the proposed merger.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company, its subsidiaries and the Operating Partnership. All significant intercompany balances have been eliminated in consolidation. The accompanying 2002 consolidated financial statements include the assets, liabilities and results of operations of Sunset KPT Investment, Inc. and subsidiaries. This entity was accounted for under the equity method for investments during 2001 and is consolidated now because the Company owns 100% of its stock.

Properties that are owned or that are owned less than 100% but controlled by the Operating Partnership have been consolidated. Control is demonstrated by the ability of the Operating Partnership to manage, directly or indirectly, day-to-day operations, refinance debt and sell the assets of the entity that owns the property without the consent of the other owners and the inability of the other owners to replace the general partner or manager. Investments in ventures which represent noncontrolling ownership interests are accounted for using the equity method of accounting. These investments are recorded initially at cost and subsequently adjusted for net equity in income (loss) and cash contributions and distributions.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (primarily consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine-month period ended September 30, 2002 are not necessarily indicative of results that may be expected for a full fiscal year. For further information, refer to the audited financial statements and accompanying footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2001.

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Reclassification

Certain amounts from prior years were reclassified to conform with current-year presentation. These reclassifications had no effect on net loss or stockholders equity as previously reported.

2. Significant Accounting Policies

Cash and cash equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Long-Lived Assets

The Company adopted the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets for fiscal year 2002 which supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed. The adoption of SFAS No. 144 had no impact to the Company s financial statements. Under these pronouncements, each reporting period the Company evaluates current events or circumstances, including occupancy levels, credit worthiness of tenants, rents and terms of leases, existing or future threats of competition, strength of retail industry, and the general state of the economy and capital markets, that may impair the carrying value of the property and performs a recoverability analysis which is based on the estimated non-discounted cash flows to be generated from the property. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to estimated fair value and an impairment loss is recognized. If the analysis indicates the carrying value is recoverable from non-discounted cash flows, the asset continues to be carried at net book value, which may differ from fair value. At such time as management is authorized to sell individual properties or other assets and the Company believes it is able to complete a sale over the next year, such properties are classified as held-for-sale. Assets held for sale are valued at the lower of carrying value or fair value less selling costs.

The marketing of the sale of the Company and/or the proposed merger of the Company described in the above Going-Private Transaction section is not an event or circumstance as defined in SFAS No. 144 or SFAS No. 121. Accordingly, no adjustment to the historical basis in the assets and liabilities of the Company is appropriate in connection with the marketing of the sale of the Company and/or the proposed merger.

Basic and diluted income per share

Basic earnings per share is calculated by dividing the income applicable to common stockholders by the weighted-average number of shares outstanding. Diluted earnings per share reflects the potential dilution that could occur if options or warrants to purchase common shares were exercised and preferred stock was converted into common shares (potential dilutive common shares).

For the three months ended September 30, 2002 and September 30, 2001, basic and dilutive earnings per share are computed based on a weighted average number of shares of 31,887,789 and 31,332,415, respectively. For the nine months ended September 30, 2002 and September 30, 2001, basic and dilutive earnings per share are computed based on a weighted average number of shares of 31,847,917 and 31,247,354, respectively. Potential dilutive common shares of 3,351,000 and 3,339,000 have been excluded from diluted earnings per share for the three months ended September 30, 2002 and September 30, 2001, respectively, because their inclusion would be antidilutive. Potential dilutive commons shares of 3,395,000 and 3,490,000 have been excluded from diluted earnings per share for the nine months ended September 30, 2002 and September 30, 2001, respectively, because their inclusion would be antidilutive.

Dividends

In an effort to conserve cash until the Company determined its ultimate strategy, the Company s board of directors ceased declaring dividends in the second quarter of 2001. The merger agreement the Company entered into with PSCO does not permit the Company to declare any dividends before the merger closes, unless the Company must do so in order to preserve our REIT status. However, management currently does not expect that will be necessary.

During 2002, the Company paid approximately $0.1 million in preferred dividends. This amount related to a retroactive adjustment to dividends declared in prior periods due to changes in the conversion price for the respective periods.

Comprehensive Income

Comprehensive income equals net income for all periods presented.

Recent Accounting Pronouncements

On June 28, 2002, the FASB issued SFAS No. 146 (SFAS 146), Accounting for Exit or Disposal Activities . SFAS 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) has set forth in EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) . The scope of FAS 146 also includes (1) costs related to terminating a contract that is not a capital lease and (2) termination benefits that employees who are involuntarily terminated receive under the terms of a one-time

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benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. See footnote 11 for further information.

3. Investment in and Advances to Unconsolidated Entities

A summary of the Company s investments in and advances to unconsolidated entities at September 30, 2002 and December 31, 2001 is as follows (all investments in unconsolidated entities are accounted for under the equity method):

Entity	Location	Ownership	September 30, 2002	December 31, 2001
Community Center Ventures:			(in thousands)	
Atlantic Realty LLC (2 community centers)	Apex and Pembroke, NC	50%	$ 2,991	$ 2,501
Park Place KPT LLC	Morrisville, NC	50%	4,914	4,514
Falls Pointe KPT LLC	Raleigh, NC	50%	2,485	5,734
Taxable Subsidiaries (see Note 1):				
Sunset KPT Investment, Inc.		100%		5,850
truefinds.com, Inc.		100%		7
			$ 10,390	$ 18,606

Falls Pointe KPT LLC

The Company previously guaranteed the repayment of the construction loan for Falls Pointe KPT LLC. Falls Pointe KPT LLC refinanced the construction loan with a $11.8 million permanent, non-recourse loan in June 2002. The refinancing generated net proceeds of $2.5 million to Falls Pointe KPT LLC. During the third quarter of 2002, the Company received a distribution from Falls Pointe KPT LLC of approximately $2.5 million. By letter dated June 26, 2002, the non-managing member of Falls Pointe KPT LLC exercised the buy/sell right under the joint venture s operating agreement. In accordance with the terms of the operating agreement, the Company delivered a valuation to the non-managing member in August 2002. On October 25, 2002, the non-managing member notified the Company of their election to buy our interest in the venture. As a result, the Company expects to receive approximately $4.5 million for the sale of its interest in the venture. The transaction is scheduled to close in late November.

Atlantic Realty LLC

In September 2002, Atlantic Realty LLC sold an outparcel at its Apex center for approximately $0.6 million. The sale resulted in a gain of $0.4 million in the unconsolidated entity. See footnote 8 for further information.

Park Place KPT LLC

The $6.9 million debt on the Park Place shopping center in North Carolina was extended until October 31, 2002. The venture has reached an agreement with the lender to extend the due date of the debt to October 31, 2003. Documents are in the process of being finalized with the lender and are expected to be completed in mid-November. The interest rate during the extension period will be LIBOR plus 2.65%. In conjunction with the extension, the venture anticipates a required principal debt reduction of approximately $0.8 million. See footnote 8 for further information.

4. Reportable Segments

The Company currently has two reportable segments under SFAS No. 131, Disclosures about Segments of an

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Enterprise and Related Information . The segments include community shopping centers located in Southeastern United States and properties held for sale. The Company evaluates performance and allocates resources based on the net operating income (NOI) of the Company s investment portfolio.

(All data in thousands)

	Community Centers	Held-For Sale (1)	All others	Total
Nine months ended September 30, 2002:				
NOI	$ 17,596	$ 1,737	$ (99)	$ 19,234
Total Assets	$ 267,569	$ 9,523	$ 50,187	$ 327,279
Nine months ended September 30, 2001:				
NOI	$ 18,130	$ 24,835	$ 328	$ 43,293
Total Assets	$ 243,002	$ 76,120	$ 84,899	$ 404,021

(1) See Note 6 on property disposals and Note 5 on properties held for sale.

5. Properties Held For Sale

As part of the Company s ongoing strategic evaluation of its portfolio of assets, management has been authorized to pursue the sale of certain properties. Management evaluates all properties on a regular basis in accordance with its long-term strategy and in the future may identify other properties for disposition or may decide to defer the pending disposition of the assets now held for sale. Assets held for sale are valued at the lower of carrying value or estimated fair value less selling costs and actual sales value may vary from these estimates. The Company intends to sell one remaining outlet property, which had minimal rental operations in 2002 and 2001, and 568 acres of undeveloped land in Brunswick County, North Carolina. The Company is actively marketing the properties. On August 8, 2002, the Company, through one of its subsidiaries, entered into an agreement to sell 531 acres of the total 568 acres of undeveloped land for $2.5 million. On November 8, 2002, the due diligence period provided by the agreement ended with no objection from the buyer and a deposit for $0.1 million became nonrefundable. The sale is expected to close in the second quarter of 2003. The net carrying value of the two assets currently being marketed for sale at September 30, 2002 is $9.4 million. There is no debt outstanding on the held-for-sale outlet property or the undeveloped land in Brunswick County, North Carolina.

Information regarding the proposed merger of the Company with Prometheus and Kimkon is provided in footnote 7.

6. Property Disposals

On May 15, 2002, the Company closed on the sale of Mount Pleasant Towne Center, a 426,000-square-foot shopping center located in Mount Pleasant, South Carolina for approximately $55.3 million, including the assumption of mortgage indebtedness of approximately $45.9 million. The gain on the sale was approximately $0.2 million after adjustments to the carrying value of this property of $6.1 million during 2001.

On December 27, 2001, the Company sold its Nashville outlet property for its approximate net book value of $5.6 million.

On September 25, 2001, the Company sold a 31-property portfolio for $180 million. The portfolio consisted of nine outlet properties, 16 VF-anchored properties and six community center properties. The Company recorded an adjustment to the carrying value of the 31-property portfolio of $100.5 million in 2001.

In addition, the Company sold its Shoreside, NC community center on September 13, 2001 for $7.5 million. The gain on the sale was approximately $0.8 million.

The following summary financial information pertains to the above-mentioned properties sold for the three and nine months ended September 30, 2002 and 2001 (in thousands):

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	Three months ended September 30, 2002	Three months ended September 30, 2001
Revenues	$	$ 12,178
Operating expenses		4,662
Net operating income		7,516
Depreciation and amortization		
Interest, net		4,178
Other		2
Net income	$	$ 3,336

	Nine months ended September 30, 2002	Nine months ended September 30, 2001
Revenues	$ 2,560	$ 38,851
Operating expenses	800	13,938
Net operating income	1,760	24,913
Depreciation and amortization		6,939
Interest, net	1,324	12,604
Other		22
Net income	$ 436	$ 5,348

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7. Proposed Merger

On June 24, 2002, the Company announced that the board of directors approved a definitive merger agreement, subject to stockholder approval, with PSCO to take the Company private. Prometheus currently owns approximately 66% of our common stock. Under the terms of the merger agreement: (1) the holders of our common stock (excluding PSCO, to which Prometheus will transfer 16,615,922 of its currently held shares of common stock immediately before the merger of the Company and PSCO) will receive $2.10 of cash per share in exchange for their shares of common stock; (2) all rights to shares of common stock under our stock compensation plans will become fully vested, and the holders of options to purchase shares of our common stock will receive for each share of stock subject to the option the difference (but only in the event of a positive amount) between $2.10 and the exercise price of each option; and (3) the holders of PSCO s redeemable preferred stock will receive redeemable preferred stock, designated Series B redeemable preferred stock, in the surviving corporation in the merger.

The merger agreement also provides that the holders of our existing Series A convertible preferred stock, at their individual election, will receive either a new preferred security, designated Series A convertible preferred stock, representing a continuing interest in the surviving corporation in the merger or cash of $6.395 per share of existing Series A convertible preferred stock. However, on October 10, 2002, all of our then-existing Series A convertible preferred stockholders and certain related entities entered into a settlement agreement with the Company, Kimco, PSCO and Prometheus, to settle certain claims. As part of this settlement, the Series A convertible preferred stockholders transferred all of their issued and outstanding shares of Series A convertible preferred stock to the Company in exchange for an aggregate cash payment of $9.5 million on October 10, 2002. As a result, the provisions of the merger agreement regarding consideration for the Series A convertible preferred stock will be inapplicable in connection with the merger.

Prometheus owns 500 shares of PSCO common stock which it purchased for $1,050, and Kimkon owns 500 shares of PSCO common stock which it purchased for $1,050. Immediately before the merger, Prometheus will contribute to PSCO 16,615,922 shares of its common stock in the Company and its rights under the contingent value right agreement. In exchange PSCO will issue to Prometheus an additional 21,115,922 shares of PSCO common stock. In the merger, the contingent value right agreement and the 16,615,922 shares of the Company s common stock that PSCO owns will be canceled without any payment or consideration. The 21,116,422 shares of PSCO common stock that Prometheus owns will be converted in the merger on a one-for-one basis into shares of the surviving corporation s common stock. Therefore, immediately after the merger, Prometheus will own 21,116,422 shares of the common stock of the surviving corporation.

In addition to Prometheus s contributions, immediately before the merger, Kimkon will contribute to PSCO $35,554,439 in cash. In exchange PSCO will issue to Kimkon shares of PSCO common stock at $2.10 per share (i.e., an additional 16,930,685 shares of PSCO common stock). In the merger, all shares of PSCO common stock owned by Kimkon will be converted on a one-for-one basis into shares of the surviving corporation s common stock. Therefore, immediately after the merger, Kimkon will own 16,931,185 shares of common stock of the surviving corporation.

Lastly, immediately before the merger, PSCO will issue up to 150 shares of its redeemable preferred stock to approximately 100 individuals at a subscription price of $500 per share. In the merger, the newly issued shares of PSCO redeemable preferred stock will be converted on a one-for-one basis into the surviving corporation s shares of Series B redeemable preferred stock.

The funds to pay the merger consideration and transaction costs of the merger will come from a combination of Kimkon s cash contribution to PSCO and the Company s cash on hand.

The merger will be accounted for as a recapitalization transaction for financial reporting purposes under accounting principles generally accepted in the United States. Under this method of accounting, the historical basis of the Company s assets and liabilities will be carried over to the surviving corporation, payment of the merger consideration will be treated as a redemption of capital stock, and additional capital contributions will be allocated to additional paid-in capital accounts. The Company s costs incurred in connection with the transaction will be expensed in the period incurred. Additional costs of approximately $1.4 million will be due upon consummation of the merger.

The definitive proxy statement was filed with the Securities and Exchange Commission on October 23, 2002. Our common stockholders will vote on the proposed merger on November 22, 2002. Given Prometheus s agreement to vote for the merger, the estimated closing date of the merger transaction will be November 22, 2002, immediately following the stockholders vote.

8. Commitments and Contingencies

The Company previously entered into a joint venture, Atlantic Realty LLC, with Effell LLC for the development, ownership and operation of Peak Plaza Shopping Center in Apex, North Carolina and University Shopping Center in Pembroke, North Carolina. The Company, through KPT Properties, L.P., is the managing member of the joint venture and Effell is its non-managing member. On July 17, 2001, Effell, on behalf of Atlantic Realty, filed a lawsuit against the Company in the Superior Court of Wake County, North Carolina alleging that the Company breached its fiduciary duty as managing member of the joint venture by failing to adequately manage, maintain and lease the joint venture s shopping centers and to sell its outparcels. The Company has reached an agreement in principle with Effell LLC and Atlantic RealVest LLC (entities under common ownership) to buyout their respective interest in Atlantic Realty LLC and Park Place KPT LLC (a separate venture with common ownership) and settle all claims in exchange for a payment of $0.4 million and the release of an individual member within Effell LLC and Atlantic RealVest LLC of their guarantee of the debt held by Atlantic Realty LLC and Park Place KPT LLC. The Company is in the process of finalizing all documents related to this agreement and negotiating with the lenders on the substitution of the Company as guarantor instead of the non-managing member. Management believes the agreement will be executed prior to the proposed merger.

Between March 15, 2002 and April 2, 2002, three substantially similar class action complaints were filed in the Circuit Court for Baltimore City, Maryland. These actions recently were consolidated. The plaintiff in each action purports to represent a putative class of all our public common stockholders who allegedly will be harmed by the proposed merger transaction. Excluded from the class are the defendants and any related or affiliated person, corporation, or other entity. The named defendants are the Company, certain directors and officers of the Company, and Prometheus. The primary claim against the defendants is an alleged breach of fiduciary duty. The plaintiffs allege that Prometheus, which owns approximately 66% of the Company s outstanding common stock, is engaging in self-dealing and not acting in good faith by offering to acquire all of the remaining outstanding common stock for an unreasonably low price, that Prometheus s offer is based on inside information known to the defendants regarding the Company s value and prospects that has not been publicly disclosed, and that Prometheus improperly is exerting its majority position and control over the directors, which has resulted in conflicts of interest between Prometheus and the Company s common stockholders and between our directors and officers and the Company s common stockholders. The complaints seek an injunction, damages, and other relief. While management believes that these lawsuits are without merit, we have determined that an early resolution of the claims, without admitting any liability, would avoid costly litigation expenses and would be in the best interests of the Company. On September 20, 2002, the parties, through their respective attorneys, entered into a memorandum of understanding setting forth the terms of the settlement of the lawsuits mentioned above. Under the terms of the memorandum of understanding, in exchange for the release by the plaintiffs of their claims related to the lawsuits, the merger, the merger agreement or any public filings in connection with these matters, against the defendants and certain other related persons, plaintiffs counsel has been granted the opportunity to review and comment on the proxy materials relating to the merger to be filed by the Company with the Securities and Exchange Commission, and to perform reasonable discovery to confirm the fairness of the settlement. In addition, the defendants have agreed not to oppose a petition by plaintiffs counsel for an award of attorneys fees and expenses not to exceed $225,000 to be paid by the Company or its successor in interest. The consummation of the settlement described in the memorandum of understanding is subject to certain conditions, including consummation of the merger, the drafting and execution of final settlement documents, and obtaining final court approval of the settlement and dismissal of the lawsuits described above.

9. Series A Convertible Preferred Stock Redemption

On June 14, 2002, some of the Company s existing Series A convertible preferred stockholders filed a lawsuit against the Company, alleging, among other things, that the Company breached its contractual obligations under the note purchase agreement dated April 2, 1996, by failing to register the plaintiffs shares of Series A convertible preferred stock. The lawsuit was filed in the United States District Court of the Southern District of New York by Blackacre Bridge Capital LLC, Gildea Management Company, Blackacre Capital Group L.P., Network Fund Associates III, Ltd., John Gildea, William O Donnell and North Atlantic Smaller Companies Investment Trust PLC. The Company believes that there is no merit to the allegations contained in the complaint because, among other things, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission in 1999 pursuant to which the Company registered the resale of all of the plaintiffs shares of existing Series A convertible preferred stock, as well as the resale of the common stock issuable upon conversion of the plaintiffs shares of existing Series A convertible preferred stock. The Securities and Exchange Commission issued an order declaring the registration statement effective on November 12, 1999. On June 27, 2002, the financial advisor to the holders of our Series A convertible preferred stock issued a press release in which it released a letter it purported to have previously delivered to the special committee, although the special committee members and its advisors had not seen the letter until its public release. The letter was dated June 17, 2002 and urges that the Company pursue a liquidation strategy. In addition, the letter makes a number of allegations that the Company believes are without merit. While the Company believes that the lawsuit mentioned above is without merit, the Company has determined that an early resolution of the claims, without admitting liability, would avoid costly litigation expenses and would be in the best interest of the Company. On October 10, 2002, the plaintiffs to the lawsuit mentioned above, as well as the other existing Series A convertible preferred stockholders and certain related parties holding warrants to purchase the Company s common stock (all of whom are collectively referred to as the Preferred Parties), entered into a settlement agreement with the Company, Kimco, PSCO and Prometheus, setting forth the terms of the settlement of the lawsuit mentioned above, any claims the Preferred Parties have threatened to assert in the lawsuit or elsewhere and any claims relating to the merger or their investment in the Company. Under the terms of the settlement agreement, the Preferred Parties agreed to surrender for cancellation all of the shares and warrants held by such persons in exchange for an aggregate payment of $9.5 million, which was paid on October 10, 2002. The

payment represents payment in full for all claims asserted or which could have been asserted in the lawsuit referred above, and any other claims which could be asserted against the Company, Kimco, PSCO, Prometheus or certain related parties, relating to the merger, the lawsuit referred to above, or the Preferred Parties investment in the Company. Concurrently with the

execution of the settlement agreement, the plaintiffs in the lawsuit executed a stipulation of dismissal with prejudice which was filed with the court on October 11, 2002.

10. Related-Party Transactions

In 1998, the Company acquired Lake Point Centre, which had been developed by certain affiliates of Mr. Konover prior to its sale to the Company. Mr. Konover is Chairman of the Board of Directors of the Company. The amount paid by the Company for the property was $14.5 million; however, as a condition of the sale, the seller, another of Mr. Konover s affiliates (the Guarantor), guaranteed certain monthly lease payments on unleased space at the center until March 2003. There were no payments received during 2001 or the first nine months of 2002 pursuant to this lease-guarantee obligation. As of September 2002, the guarantor owed approximately $0.6 million under this lease-guarantee obligation. The Guarantor is disputing these payments. The Company is pursuing the resolution of these disputes.

11. Severance and Other Related Costs

In anticipation of a successful merger transaction and in an effort to continue to reduce costs, the Company announced layoffs of certain employees in September and October 2002. Severance and other related costs of approximately $0.4 million is recorded in the accompanying statement of operations for the three months ended September 30, 2002 for the announced third quarter layoffs. In anticipation of the merger transaction, the Company plans for a substantial layoff of employees and will record an estimated charge of $1.8 million for severance and accelerated stock compensation amortization.

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

This discussion should be read with the selected financial data in this section and the consolidated financial statements and notes in this report. Certain comparisons between the periods have been made on a percentage basis and on a weighted-average square-foot basis. Comparisons on a weighted-average square-foot basis adjust for square-footage added at different times during the year.

Selected Financial Data

The following information should be read with the consolidated financial statements and notes thereto included in this report.

Industry analysts generally consider Funds From Operations (FFO) an appropriate measure of performance for an equity REIT. FFO means net income before extraordinary items (computed in accordance with accounting principles generally accepted in the United States) excluding gains or losses on the sale of real estate plus real estate depreciation and amortization.

EBITDA is defined as revenues less operating costs, including general and administrative expenses, before interest, depreciation and amortization and unusual items. As a REIT, the Company is generally not subject to Federal income taxes. Some analysts believe that EBITDA provides a meaningful indicator of operating performance for the following reasons: (i) it is industry practice to evaluate the performance of real estate properties based on net operating income (NOI), which is generally equivalent to EBITDA; and (ii) both NOI and EBITDA are unaffected by the debt and equity structure of the property owner.

FFO and EBITDA (i) do not represent cash flow from operations as defined by generally accepted accounting principles, (ii) are not necessarily indicative of cash available to fund all cash flow needs and (iii) should not be considered as an alternative to net income for purposes of evaluating the Company s operating performance or as an alternative to cash flow as a measure of liquidity.

Other data that management believes is important in understanding trends in its business and properties are also included in the following table (in thousands, except per share data).

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	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Operating Data:				
Rental revenues	$ 8,871	$ 20,591	$ 28,754	$ 64,742
Property operating costs	3,014	7,408	9,520	21,449
Net operating income	5,857	13,183	19,234	43,293
Depreciation and amortization	2,654	3,153	8,031	15,686
General and administrative	1,983	1,817	6,522	5,481
Stock compensation amortization	54	113	140	676
Operating loss of sold management business			84	
Severance and other related costs	367	899	367	6,830
Interest, net	3,555	8,083	12,133	23,661
Adjustment to carrying value property			(300)	105,110
Loss (gain) on sale of real estate	63	(476)	(150)	(476)
Abandoned transaction costs	5	24	36	70
Equity in (earnings) losses of unconsolidated entities	(372)	414	(707)	5,495
Minority interest	(107)	(2)	(264)	(3,299)
Loss before extraordinary item	(2,345)	(842)	(6,658)	(115,941)
Extraordinary gain on early retirement of debt		775		775
Net loss	(2,345)	(67)	(6,658)	(115,166)
Preferred dividends	(1)		(94)	(271)
Loss applicable to common stockholders	$ (2,346)	$ (67)	$ (6,752)	$ (115,437)
Basic and diluted loss per common share:				
Loss before extraordinary item applicable to common stockholders	$ (0.07)	$ (0.02)	$ (0.21)	$ (3.71)
Extraordinary item		0.02		0.02
Net loss applicable to common stockholders	$ (0.07)	$ (0.00)	$ (0.21)	$ (3.69)
Weighted-average common shares outstanding	31,888	31,332	31,848	31,247

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	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Other Data:				
EBITDA:				
Net loss	$ (2,345)	$ (67)	$ (6,658)	$ (115,166)
Adjustments:				
Interest, net	3,555	8,083	12,133	23,661
Depreciation and amortization	2,654	3,153		