

# FORM 10-Q

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

FOR THE QUARTER ENDED MARCH 31, 2002

COMMISSION FILE NUMBER 1-7094

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

MARYLAND  
(State or other jurisdiction  
of incorporation or organization)

13-2711135  
(I.R.S. Employer  
Identification No.)

300 ONE JACKSON PLACE  
188 EAST CAPITOL STREET  
JACKSON, MISSISSIPPI  
(Address of principal executive offices)

39201  
(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 ( )

The number of shares of common stock, \$.0001 par value, outstanding as of May 9, 2002 was 16,074,935.

**EASTGROUP PROPERTIES, INC.**  
**FORM 10-Q**  
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**FOR THE QUARTER ENDED MARCH 31, 2002**

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

	<b>March 31, 2002</b>	<b>December 31, 2001</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Real estate properties:		
Industrial	\$ 690,184	689,760
Industrial development	43,217	37,504
Other	7,069	7,069
	740,470	734,333
Less accumulated depreciation	(97,323)	(92,060)
	643,147	642,273
Real estate held for sale	7,350	1,907
Less accumulated depreciation	(1,245)	(141)
	6,105	1,766
Mortgage loans	5,515	5,515
Investment in real estate investment trusts	4,740	6,452
Cash	1,367	1,767
Other assets	26,012	26,009
<b>TOTAL ASSETS</b>	<b>\$ 686,886</b>	<b>683,782</b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Mortgage notes payable	\$ 203,722	205,014
Notes payable to banks	92,118	86,058
Accounts payable & accrued expenses	11,702	12,801
Other liabilities	7,905	7,460
	315,447	311,333
Minority interest in joint ventures	1,744	1,739
 <b>STOCKHOLDERS' EQUITY</b>		
Series A 9.00% Cumulative Redeemable Preferred Shares and additional paid-in capital; \$.0001 par value; 1,725,000 shares authorized and issued; stated liquidation preference of \$43,125	41,357	41,357
Series B 8.75% Cumulative Convertible Preferred Shares and additional paid-in capital; \$.0001 par value; 2,800,000 shares authorized and issued; stated liquidation preference of \$70,000	67,178	67,178
Series C Preferred Shares; \$.0001 par value; 600,000 shares authorized; no shares issued	-	-
Common shares; \$.0001 par value; 64,875,000 shares authorized; 16,074,935 shares issued at March 31, 2002 and 15,912,060 at December 31, 2001	2	2
Excess shares; \$.0001 par value; 30,000,000 shares authorized; no shares issued	-	-
Additional paid-in capital on common shares	242,813	240,197
Undistributed earnings	19,813	23,753
Accumulated other comprehensive income	1,465	1,193
Unearned compensation	(2,933)	(2,970)
	369,695	370,710
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 686,886</b>	<b>683,782</b>

See accompanying notes to consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2002</b>	<b>2001</b>
<b>REVENUES</b>		
Income from real estate operations	\$ 24,765	24,227
Interest:		
Mortgage loans	123	109
Other interest	13	20
Gain on sale of securities	421	-
Other	144	200
	25,466	24,556
<b>EXPENSES</b>		
Operating expenses from real estate operations	7,071	5,976
Interest	4,175	4,509
Depreciation and amortization	7,052	6,178
General and administrative	1,087	1,103
Minority interest in joint ventures	93	85
	19,478	17,851
<b>INCOME BEFORE GAIN ON REAL ESTATE INVESTMENTS</b>	5,988	6,705
Gain on real estate investments	93	-
	6,081	6,705
<b>INCOME FROM CONTINUING OPERATIONS</b>	6,081	6,705
Income from discontinued operations	29	108
	6,110	6,813
<b>NET INCOME</b>	6,110	6,813
Preferred dividends-Series A	970	970
Preferred dividends-Series B	1,532	1,532
	3,608	4,311
<b>NET INCOME AVAILABLE TO COMMON STOCKHOLDERS</b>	\$ 3,608	4,311
<b>BASIC PER COMMON SHARE DATA</b>		
Income from continuing operations	\$ 0.23	0.27
Income from discontinued operations	0.00	0.01
Net income available to common stockholders	\$ 0.23	0.28
Weighted average shares outstanding	15,772	15,673
<b>DILUTED PER COMMON SHARE DATA</b>		
Income from continuing operations	\$ 0.22	0.26
Income from discontinued operations	0.00	0.01
Net income available to common stockholders	\$ 0.22	0.27
Weighted average shares outstanding	16,166	16,029

*See accompanying notes to consolidated financial statements.*

**EASTGROUP PROPERTIES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES**  
**IN STOCKHOLDERS' EQUITY (UNAUDITED)**  
**(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)**

	Preferred Stock	Common Stock	Additional Paid-In Capital	Unearned Compensation	Undistributed Earnings	Accumulated Other Comprehensive Income	Total
<b>BALANCE, DECEMBER 31, 2001</b>	\$ 108,535	2	240,197	(2,970)	23,753	1,193	370,710
Comprehensive income							
Net income	-	-	-	-	6,110	-	6,110
Net unrealized change in investment securities	-	-	-	-	-	272	272
Total comprehensive income							6,382
Cash dividends declared-common, \$ .47 per share	-	-	-	-	(7,548)	-	(7,548)
Preferred stock dividends declared	-	-	-	-	(2,502)	-	(2,502)
Issuance of 6,762 shares of common stock, incentive compensation	-	-	151	-	-	-	151
Issuance of 3,544 shares of common stock, dividend reinvestment plan	-	-	92	-	-	-	92
Issuance of 148,319 shares of common stock, exercise options	-	-	2,301	-	-	-	2,301
Issuance of 8,250 shares of common stock, incentive restricted stock	-	-	185	(185)	-	-	-
Forfeiture of 4,000 shares of common stock, incentive restricted stock	-	-	(113)	90	-	-	(23)
Amortization of unearned compensation, incentive restricted stock	-	-	-	132	-	-	132
<b>BALANCE, MARCH 31, 2002</b>	\$ 108,535	2	242,813	(2,933)	19,813	1,465	369,695

See accompanying notes to consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2002</b>	<b>2001</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 6,110	6,813
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization from continuing operations	7,052	6,178
Depreciation and amortization from discontinued operations	73	66
Gain on real estate investments, net	(93)	-
Gain on real estate investment trust shares	(421)	-
Amortization of unearned compensation	109	92
Minority interest depreciation and amortization	(43)	(40)
Changes in operating assets and liabilities:		
Accrued income and other assets	1,326	(3,163)
Accounts payable, accrued expenses and prepaid rent	(91)	(54)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>14,022</b>	<b>9,892</b>
<b>INVESTING ACTIVITIES:</b>		
Payments on mortgage loans receivable	-	4,565
Advances on mortgage loans receivable	-	(599)
Proceeds from sale of real estate investments	1,111	-
Real estate improvements	(1,789)	(1,186)
Real estate development	(10,925)	(7,643)
Purchases of real estate	-	(9,595)
Purchases of real estate investment trust shares	-	(2,931)
Proceeds from sale of real estate investment trust shares	2,405	-
Changes in other assets and other liabilities	(963)	3,472
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(10,161)</b>	<b>(13,917)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from bank borrowings	106,705	54,072
Principal payments on bank borrowings	(100,645)	(34,913)
Proceeds from mortgage notes payable	-	-
Principal payments on mortgage notes payable	(1,292)	(4,794)
Debt issuance costs	(1,007)	(192)
Distributions paid to stockholders	(9,955)	(9,561)
Proceeds from exercise of stock options	2,301	177
Proceeds from dividend reinvestment plan	92	91
Other	(460)	(264)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(4,261)</b>	<b>4,616</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(400)</b>	<b>591</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>1,767</b>	<b>2,861</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 1,367</b>	<b>3,452</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest, net of amount capitalized	\$ 4,214	5,095

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### (1) BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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 2001 annual report and the notes thereto.

### (2) RECLASSIFICATIONS

Certain reclassifications have been made in the 2001 financial statements to conform to the 2002 presentation.

### (3) NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for by using the purchase method of accounting and addresses accounting for purchased goodwill and other intangibles. SFAS No. 142 addresses financial accounting and reporting for the impairment of goodwill and other intangibles and is effective for fiscal years beginning after December 15, 2001. The Company had no business combinations after June 30, 2001. At March 31, 2002 and December 31, 2001, the Company had unamortized goodwill of \$990,000 resulting from the acquisition of Ensign Properties in 1998. Amortization of goodwill expense for 2001 was \$61,000. Upon adoption of SFAS No. 142 on January 1, 2002, amortization of goodwill ceased. The Company periodically reviews the recoverability of goodwill for possible impairment and will continue to do so under the new statement. In management's opinion, no material impairment of goodwill existed at March 31, 2002.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," effective for financial statements issued for fiscal years beginning after June 15, 2002. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company has evaluated the effect of adopting this statement and believes the effect of adoption will have no impact to its financial position or results of operation.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for fiscal years beginning after December 15, 2001. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company adopted this statement on January 1, 2002. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." See Note 4 for a discussion of the effect that this statement had on the Company's financial statement presentation.

#### (4) REAL ESTATE HELD FOR SALE

Real estate properties that are currently offered for sale or are under contract to sell have been shown separately on the consolidated balance sheets as "real estate held for sale." Such assets are carried at the lower of current carrying amount or fair market value less estimated selling costs and are not depreciated while they are held for sale. At March 31, 2002, the Company had one industrial property and two parcels of land held for sale. There can be no assurances that such properties will be sold.

In accordance with the guidelines established under SFAS No. 144, operations from the properties placed in the category "held for sale" subsequent to December 31, 2001 have been classified as income from discontinued operations for the quarters ended March 31, 2002 and 2001. No interest expense was allocated to the properties that are held for sale.

#### (5) OTHER ASSETS

A summary of the Company's other assets follows:

	<u>March 31, 2002</u>	<u>December 31, 2001</u>
	<i>(In thousands)</i>	
Leasing commissions, net of accumulated amortization	\$ 9,642	9,313
Receivables, net of allowance for doubtful accounts	6,437	8,473
Section 1031 tax deferred exchange cash escrows	2,078	2,074
Prepaid expenses and other assets	7,855	6,149
	<u>\$ 26,012</u>	<u>26,009</u>

#### (6) COMPREHENSIVE INCOME

Comprehensive income is comprised of net income plus all other changes in equity from nonowner sources. The components of comprehensive income for the three months ended March 31, 2002 are presented in the Company's Consolidated Statements of Changes in Stockholders' Equity. The unrealized change in investment securities is net of realized gains on real estate investment trust securities included in net income as shown below:

	<u>(In thousands)</u>	
Other comprehensive income:		
Unrealized holding gains during the period	\$ 693	
Less reclassification adjustment for gains included in net income		(421)
Net unrealized change in investment securities	<u>\$ 272</u>	

#### (7) EARNINGS PER SHARE

Basic earnings per share (EPS) represents the amount of earnings for the period available to each share of common stock outstanding during the reporting period. The Company's basic EPS is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding.

Diluted EPS represents the amount of earnings for the period available 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's diluted EPS is calculated by totaling net income available to common

stockholders plus dividends on dilutive convertible preferred shares and dividing it by the weighted average number of common shares outstanding plus the dilutive effect of stock options related to outstanding employee stock options, nonvested restricted stock and convertible preferred stock, had the options or conversions been exercised. The dilutive effect of stock options and nonvested 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 assuming proceeds from the exercise of options are used to purchase common stock at the average market price during the period. The treasury stock method was also used assuming conversion of the convertible preferred stock. Reconciliation of the numerators and denominators in the basic and diluted EPS computations is as follows:

### Reconciliation of Numerators and Denominators

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2002</b>	2001
	<i>(In thousands)</i>	
<b>Basic EPS Computation</b>		
Numerator-net income available to common stockholders	\$ 3,608	4,311
Denominator-weighted average shares outstanding	15,772	15,673
<b>Diluted EPS Computation</b>		
Numerator-net income available to common stockholders	\$ 3,608	4,311
Denominator:		
Weighted average shares outstanding	15,772	15,673
Common stock options	210	175
Nonvested restricted stock	184	181
Total shares	<u>16,166</u>	<u>16,029</u>

The Series B Preferred Stock, which is convertible into common stock at a conversion price of \$22.00 per share, was not included in the computation of diluted earnings per share for the periods presented due to its antidilutive effect.

### (8) SEGMENT REPORTING

The Company applies SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for the reporting of information about operating segments in annual and interim financial statements. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in assessing performance.

EastGroup has one reportable segment—industrial properties. These properties are concentrated in major Sunbelt regions of the United States, have similar economic characteristics and also meet the other criteria that permit the industrial properties to be aggregated into one reportable segment. The Company's chief decision makers use two primary measures of operating results in making decisions, such as allocating resources: property net operating income (PNOI), defined as real estate operating revenues less real estate operating expenses (before interest expense and depreciation), and funds from operations (FFO), defined as net income (loss) (computed in accordance with generally accepted accounting principles (GAAP)), excluding gains or losses from sales of depreciable real estate property, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The Company believes FFO is an appropriate measure of performance for equity real estate investment trusts. FFO is not considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company's

financial performance or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make distributions. The table below presents on a comparative basis for the three months ended March 31, 2002 and 2001 reported PNOI by operating segment, followed by reconciliations of PNOI to FFO and FFO to net income.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2002</b>	2001
	<i>(In thousands)</i>	
<b>PROPERTY REVENUES:</b>		
Industrial	\$ 24,347	23,856
Other	418	371
	<u>24,765</u>	<u>24,227</u>
<b>PROPERTY EXPENSES:</b>		
Industrial	(6,923)	(5,884)
Other	(148)	(92)
	<u>(7,071)</u>	<u>(5,976)</u>
<b>PROPERTY NET OPERATING INCOME:</b>		
Industrial	17,424	17,972
Other	270	279
<b>TOTAL PROPERTY NET OPERATING INCOME</b>	<u>17,694</u>	<u>18,251</u>
Income from discontinued operations (excluding depreciation)	102	174
Gain on securities	421	-
Other income	280	329
Interest expense	(4,175)	(4,509)
General and administrative expense	(1,087)	(1,103)
Minority interest in earnings	(136)	(125)
Dividends on Series A preferred shares	(970)	(970)
	<u>12,129</u>	<u>12,047</u>
<b>FUNDS FROM OPERATIONS</b>		
Depreciation and amortization from continuing operations	(7,052)	(6,178)
Depreciation and amortization from discontinued operations	(73)	(66)
Share of joint venture depreciation and amortization	43	40
Gain on depreciable real estate investments	93	-
Dividends on Series B convertible preferred shares	(1,532)	(1,532)
	<u>3,608</u>	<u>4,311</u>
<b>NET INCOME AVAILABLE TO COMMON STOCKHOLDERS</b>		
Dividends on preferred shares	2,502	2,502
	<u>6,110</u>	<u>6,813</u>
<b>NET INCOME</b>	<u>\$ 6,110</u>	<u>6,813</u>

#### (9) SUBSEQUENT EVENTS

EastGroup's only mortgage note payable maturing in 2002 had a balance of \$8,033,000 at March 31, 2002 and an interest rate of 7.45%. On April 24, 2002, this note was replaced with a new nonrecourse mortgage of \$8,200,000 with an interest rate of 6.43%, a 10-year maturity and an amortization period of 12 years.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### FINANCIAL CONDITION

(Comments are for the balance sheet dated March 31, 2002 compared to December 31, 2001.)

Assets of EastGroup were \$686,886,000 at March 31, 2002, an increase of \$3,104,000 from December 31, 2001. Liabilities (excluding minority interests) increased \$4,114,000 to \$315,447,000 and stockholders' equity decreased \$1,015,000 to \$369,695,000 during the same period. Book value per common share decreased from \$16.19 at December 31, 2001 to \$15.96 at March 31, 2002. The paragraphs that follow explain these changes in detail.

Industrial properties increased \$424,000 during the three months ended March 31, 2002. This increase was due to the transfer of two properties from development with total costs of \$5,900,000 and capital improvements of \$2,282,000 made on existing and acquired properties. These increases were offset by the transfer of one property to the category "held for sale" with costs of \$6,577,000 and the transfer of land into development with costs of \$1,181,000.

Development increased \$5,713,000 during the three months ended March 31, 2002. This increase resulted from year-to-date development costs of \$10,432,000 on existing and completed development properties and the transfer of land from the portfolio to development with costs of \$1,181,000, offset by development properties transferred to industrial properties with costs of \$5,900,000, as detailed in the following table.

Total cash outflows for development for the three months ended March 31, 2002 were \$11,565,000. In addition to the costs incurred for the three months ended March 31, 2002 as detailed in the table below, development costs included \$493,000 for improvements on properties transferred to the portfolio in the 12-month period following transfer and first generation tenant leasing commission costs of \$640,000. These costs are reported in *Industrial* and *Other Assets* on the balance sheet, respectively.

### Development

	Size at Completion	Costs Incurred		Estimated Total Costs (1)
		For the 3 Months Ended 3/31/02	Cumulative as of 3/31/02	
	(Square feet)		(In thousands)	
<b>Lease-Up:</b>				
Walden Distribution Center I				
Tampa, Florida	90,000	\$	140	3,680
Techway Southwest I				
Houston, Texas	126,000		101	4,311
Sunport Center III				
Orlando, Florida	66,000		(60)	3,165
World Houston XIV				
Houston, Texas	77,000		677	3,010
Americas 10 Business Center I				
El Paso, Texas	97,000		545	2,832
<b>Total Lease-up</b>	<b>456,000</b>		<b>1,403</b>	<b>16,998</b>

**Under Construction:**

World Houston XII				
Houston, Texas	59,000	924	1,456	2,900
Metro Airport Commerce Center I				
Jackson, Mississippi	32,000	630	956	1,700
Tower Automotive				
Jackson, Mississippi	200,000	3,824	4,208	11,700
Executive Airport Commerce Center I & III				
Fort Lauderdale, Florida	85,000	182	1,628	7,900
<b>Total Under Construction</b>	<b>376,000</b>	<b>5,560</b>	<b>8,248</b>	<b>24,200</b>

**Prospective Development:**

Phoenix, Arizona	103,000	26	1,280	6,000
Tucson, Arizona	70,000	5	331	3,500
Tampa, Florida	338,000	1,019	3,290	13,500
Orlando, Florida	249,000	280	3,104	14,900
Fort Lauderdale, Florida	55,000	101	1,029	1,400
El Paso, Texas	251,000	58	1,981	7,600
Houston, Texas	1,057,000	419	6,644	50,200
Jackson, Mississippi	32,000	9	312	1,700
<b>Total Prospective Development</b>	<b>2,155,000</b>	<b>1,917</b>	<b>17,971</b>	<b>98,800</b>
	<b>2,987,000</b>	<b>\$ 8,880</b>	<b>43,217</b>	<b>143,300</b>

**Completed Development and  
Transferred to Industrial  
Properties During Three  
Months Ended March 31, 2002:**

Kyrene II				
Tempe, Arizona	60,000	\$ -	3,049	
World Houston XIII				
Houston, Texas	51,000		1,552	2,851
<b>Total Transferred to Industrial</b>	<b>111,000</b>	<b>\$ 1,552</b>	<b>5,900</b>	

- (1) *The information provided above includes forward-looking data based on current construction schedules, the status of lease negotiations with potential tenants and other relevant factors currently available to the Company. There can be no assurance that any of these factors will not change or that any change will not affect the accuracy of such forward-looking data. Among the factors that could affect the accuracy of the forward-looking statements are weather or other natural occurrence, default or other failure of performance by contractors, increases in the price of construction materials or the unavailability of such materials, failure to obtain necessary permits or approvals from government entities, changes in local and/or national economic conditions, increased competition for tenants or other occurrences that could depress rental rates, and other factors not within the control of the Company.*

Real estate held for sale increased \$5,443,000 due to the transfer of one property from the portfolio with total costs of \$6,577,000, offset by the sale of one property with costs of \$1,134,000.

Accumulated depreciation on real estate properties and real estate held for sale increased \$6,367,000 due to depreciation expense of \$6,508,000 on real estate properties, offset by the sale of one property with accumulated depreciation of \$141,000.

Investment in real estate investment trusts (REITs) decreased from \$6,452,000 at December 31, 2001 to \$4,740,000 at March 31, 2002 as a result of the sale of REIT shares with a carrying value of \$1,984,000, offset by unrealized gains of \$272,000.

Mortgage notes payable decreased \$1,292,000 during the three months ended March 31, 2002, as a result of regularly scheduled principal payments.

Notes payable to banks increased \$6,060,000 as a result of borrowings of \$106,705,000, offset by payments of \$100,645,000. The Company's credit facilities are described in greater detail under Liquidity and Capital Resources.

Accumulated other comprehensive income increased \$272,000 as a result of unrealized holding gains of \$693,000 recorded in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," offset by realized gains of \$421,000 on REIT shares.

Undistributed earnings decreased from \$23,753,000 at December 31, 2001 to \$19,813,000 at March 31, 2002, as a result of dividends on common and preferred stock of \$10,050,000 exceeding net income for financial reporting purposes of \$6,110,000.

## RESULTS OF OPERATIONS

(Comments are for the three months ended March 31, 2002, compared to the three months ended March 31, 2001.)

Net income available to common stockholders for the three months ended March 31, 2002 was \$3,608,000 (\$.23 per basic share and \$.22 per diluted share), compared to net income available to common stockholders for the three months ended March 31, 2001 of \$4,311,000 (\$.28 per basic share and \$.27 per diluted share). Income before gain on real estate investments was \$5,988,000 for the three months ended March 31, 2002, compared to \$6,705,000 for the three months ended March 31, 2001. Gain on real estate investments for the three months ended March 31, 2002, was \$93,000 compared to no gain for the same period in 2001. The paragraphs that follow describe the results of operations in detail.

Property net operating income (PNOI) from real estate properties, defined as income from real estate operations less property operating expenses (before interest expense and depreciation), decreased by \$557,000 or 3.1% for the three months ended March 31, 2002 compared to the three months ended March 31, 2001. PNOI by property type and percentage leased for industrial were as follows:

### Property Net Operating Income

	PNOI		Percent	
	Three Months Ended March 31,		Leased	
	2002	2001	3-31-02	3-31-01
	<i>(In thousands)</i>			
Industrial	\$ 17,424	17,972	90.1%	95.8%
Other	270	279		
Total PNOI	<u>\$ 17,694</u>	<u>18,251</u>		

PNOI from industrial properties decreased \$548,000 for the three months ended March 31, 2002, compared to March 31, 2001. Industrial properties held throughout the three months ended March 31, 2002 compared to the same period in 2001 showed a decrease in PNOI of 2.8%. The Company's portfolio occupancy level decreased from 94.3% at March 31, 2001 to 88.8% at March 31, 2002 primarily due to a continued slowing in the economy and the unusually high percentage of leases which expired last year (over 20%). In addition, real estate operating expenses increased \$1,095,000 or 18.3%. This increase was primarily due to increases in insurance and property taxes. Because of the lower

occupancy, the Company was not able to pass through as large a percent of this expense increase in 2002 as it would have been able to do in 2001.

Gain on the sale of REIT securities was \$421,000 for the three months ended March 31, 2002. There were no sales of REIT securities in the first quarter of 2001.

Bank interest expense before amortization of loan costs and capitalized interest was \$666,000 for the three months ended March 31, 2002, a decrease of \$1,209,000 from the three months ended March 31, 2001. Average bank borrowings were \$86,767,000 for the three months ended March 31, 2002 compared to \$106,093,000 for the same period in 2001 with average interest rates of 3.07% for the three months ended March 31, 2002 compared to 7.07% for the same period in 2001. Interest costs incurred during the period of construction of real estate properties are capitalized and offset against the bank interest expense. The interest costs capitalized on real estate properties for the three months ended March 31, 2002 were \$532,000 compared to \$675,000 for the same period in 2001. Amortization of bank loan costs was \$106,000 and \$66,000 for the three months ended March 31, 2002 and 2001, respectively.

Mortgage interest expense on real estate properties was \$3,882,000 for the three months ended March 31, 2002, an increase of \$682,000 from the three months ended March 31, 2001. Amortization of mortgage loan costs was \$53,000 and \$43,000 for the three months ended March 31, 2002 and 2001, respectively. These increases were primarily due to the \$45,000,000 mortgage loan obtained in April 2001, offset by the payoff of two smaller loans in 2001.

Depreciation and amortization increased \$874,000 for the three months ended March 31, 2002 compared to the same period in 2001. This increase was primarily due to the industrial properties acquired and development properties that achieved stabilized operations in both 2001 and 2002. These increases were offset by the sale of several properties in 2001 and 2002 and the transfer of several properties to real estate held for sale (depreciation is not taken on those properties in the category "real estate held for sale").

A summary of the gain on real estate investments for the three months ended March 31, 2002 is detailed below. There were no property sales in the first quarter of 2001.

**Gain on Real Estate Investments**

	<b>Basis</b>	<b>Net Sales Price</b>	<b>Recognized Gain</b>
	<i>(In thousands)</i>		
<b>2002</b>			
Real estate properties:			
Carpenter Duplex, Dallas, TX	\$ 1,018	1,111	93
	<u>\$ 1,018</u>	<u>1,111</u>	<u>93</u>

NAREIT has recommended supplemental disclosures concerning straight-line rent, capital expenditures and leasing costs. Straight-line rent for the three months ended March 31, 2002 was

\$237,000 compared to \$524,000 for the same period in 2001. Capital expenditures for the three months ended March 31, 2002 and 2001 are as follows:

### Capital Expenditures

	<u>2002</u>	<u>2001</u>
	<i>(In thousands)</i>	
Upgrade on Acquisitions	\$ -	170
Major Renovation	50	-
Tenant improvements:		
New Tenants	788	391
New Tenants (first generation)*	63	33
Renewal Tenants	358	43
Other	530	549
Total capital expenditures	<u>\$ 1,789</u>	<u>1,186</u>

\* First generation refers to space that has never been occupied.

The Company's leasing costs are capitalized and included in other assets. The costs are amortized over the terms of the leases and are included in depreciation and amortization expense. A summary of these costs for the three months ended March 31, 2002 and 2001 is as follows:

### Capitalized Leasing Costs

	<u>2002</u>	<u>2001</u>
	<i>(In thousands)</i>	
Capitalized leasing costs:		
First Generation–Development	\$ 640	257
New Tenants	156	202
Renewal Tenants	96	392
First Generation–Other	68	(136)
Total capitalized leasing costs	<u>\$ 960</u>	<u>715</u>
Amortization of leasing costs	<u>\$ 617</u>	<u>568</u>

### LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$14,022,000 for the three months ended March 31, 2002. Other sources of cash were primarily from bank borrowings, sales of REIT shares, proceeds from exercise of stock options and sales of real estate investments. The Company distributed \$7,453,000 in common and \$2,502,000 in preferred stock dividends. Other primary uses of cash were for bank debt payments, construction and development of properties, capital improvements at the various properties, mortgage note payments, and debt issuance costs. Total debt at March 31, 2002 and 2001 was as follows:

	<u>As of March 31,</u>	
	<u>2002</u>	<u>2001</u>
	<i>(In thousands)</i>	
Mortgage notes payable – fixed rate	\$ 203,722	163,915
Bank notes payable – floating rate	92,118	121,159
Total debt	<u>\$ 295,840</u>	<u>285,074</u>

In January 2002, the Company closed a new three-year, \$175,000,000 unsecured revolving credit facility with a group of ten banks, which was arranged by PNC Bank, N.A. The interest rate on the facility is based on the Eurodollar rate and varies according to debt-to-total asset value ratios. EastGroup's interest rate for this facility at March 31, 2002 was the Eurodollar rate plus 1.15%. At the loan closing, EastGroup elected a six-month interest period for \$50,000,000 with an interest rate of 3.14%. The interest rate on the remaining loan balance is currently reset on a monthly basis. The interest rate was 3.03% on a balance of \$34,000,000 at March 31, 2002.

In January 2002, the Company also secured a one-year \$12,500,000 unsecured revolving credit facility with PNC Bank, N.A. that matures in January 2003. The interest rate on this facility is based on the LIBOR rate and varies according to debt-to-total asset value ratios. The interest rate was 2.96% on a balance of \$8,118,000 at March 31, 2002.

Upon funding of the foregoing two lines of credit with PNC Bank in January, the Company repaid its expiring lines of credit.

EastGroup's only mortgage note payable maturing in 2002 had a balance of \$8,033,000 at March 31, 2002 and an interest rate of 7.45%. On April 24, 2002, this note was replaced with a new nonrecourse mortgage of \$8,200,000 with an interest rate of 6.43%, a 10-year maturity and an amortization period of 12 years.

EastGroup's Board of Directors has authorized the repurchase of up to 1,500,000 shares of its outstanding common stock. The shares may be purchased from time to time in the open market or in privately negotiated transactions. The Company did not repurchase any shares during the three months ended March 31, 2002. Since September 30, 1998, a total of 827,700 shares have been repurchased for \$14,170,000 (an average of \$17.12 per share) with 672,300 shares still available for repurchase.

EastGroup owns 487,100 shares of Pacific Gulf Properties (PAG) with a carrying amount of \$487,000 (estimated remaining distributions from PAG) at March 31, 2002. PAG is in the final stage of liquidating its assets and made liquidating distributions of \$22.00 per share in 2000 and a total of \$5.275 per share in 2001. At March 31, 2002, the Company had an investment of \$4,253,000 in other REIT shares that included unrealized gains of \$979,000 in addition to its remaining investment in PAG. In April 2002, the remaining other REIT shares were sold for \$4,325,000 and a gain of \$1,050,000, which will be recorded in the second quarter.

The Company anticipates that its current cash balance, operating cash flows, and borrowings under its lines of credit will be adequate for the Company's (i) operating and administrative expenses, (ii) normal repair and maintenance expenses at its properties, (iii) debt service obligations, (iv) distributions to stockholders, (v) capital improvements, (vi) purchases of properties, (vii) development, and (viii) common stock repurchases.

## **INFLATION**

In the last five years, inflation has not had a significant impact on the Company because of the relatively low inflation rate in the Company's geographic areas of operation. Most of the leases require the tenants to pay their pro rata share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing the Company's exposure to increases in operating expenses resulting from inflation. In addition, the Company's leases typically have three to five year terms, which may enable the Company to replace existing leases with new leases at a higher base if rents on the existing leases are below the then-existing market rate.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is exposed to interest rate changes primarily as a result of its lines of credit and long-term debt maturities. This debt is used to maintain liquidity and fund capital expenditures and expansion of the Company's real estate investment portfolio and operations. The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the Company borrows at fixed rates but also has several variable rate bank lines as discussed under Liquidity and Capital Resources. The table below presents the principal payments due and weighted average interest rates for both the fixed rate and variable rate debt.

	Apr-Dec							Fair
	2002	2003	2004	2005	2006	Thereafter	Total	Value
Fixed rate debt (in thousands)	\$ 11,815	8,975	9,775	23,596	20,039	129,522	203,722	209,054
Weighted average interest rate	7.55%	8.23%	8.12%	8.06%	7.87%	7.42%	7.61%	
Variable rate debt (in thousands)	-	8,118	-	84,000	-	-	92,118	92,118
Weighted average interest rate	-	2.96%	-	3.10%	-	-	3.08%	

As the table above incorporates only those exposures that exist as of March 31, 2002, it does not consider those exposures or positions that could arise after that date. The Company's ultimate economic impact with respect to interest rate fluctuations will depend on the exposures that arise during the period and interest rates. If the weighted average interest rate on the variable rate bank debt as shown above changes by 10% or approximately 31 basis points, interest expense and cash flows would increase or decrease by approximately \$284,000 annually.

### FORWARD LOOKING STATEMENTS

In addition to historical information, certain sections of this Form 10-Q contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, such as those pertaining to the Company's hopes, expectations, intentions, beliefs, strategies regarding the future, the anticipated performance of development and acquisition properties, capital resources, profitability and portfolio performance. Forward-looking statements involve numerous risks and uncertainties. The following factors, among others discussed herein, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: defaults or non-renewal of leases, increased interest rates and operating costs, failure to obtain necessary outside financing, difficulties in identifying properties to acquire and in effecting acquisitions, failure to qualify as a real estate investment trust under the Internal Revenue Code of 1986, as amended, environmental uncertainties, risks related to natural disasters and the costs of insurance to protect from such disasters, financial market fluctuations, changes in real estate and zoning laws and increases in real property tax rates. The success of the Company also depends upon the trends of the economy, including interest rates, income tax laws, governmental regulation, legislation, population changes and those risk factors discussed elsewhere in this Form. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's analysis only as the date hereof. The Company assumes no obligation to update forward-looking statements. See also the Company's reports to be filed from time to time with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

**SIGNATURE**

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

DATED: May 10, 2002

EASTGROUP PROPERTIES, INC.

/s/ BRUCE CORKERN  
Bruce Corkern, CPA  
Senior Vice President and Controller

/s/ N. KEITH MCKEY  
N. Keith McKey, CPA  
Executive Vice President, Chief  
Financial Officer and Secretary