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KONOVER PROPERTY TRUST INC
Form 10-Q
May 14, 2002

FORM 10-Q

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 quarterly period ended March 31, 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 ☒ 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: 31,916,354 shares of Common Stock, \$0.01 par value, as of April 30, 2002.

KONOVER PROPERTY TRUST, INC.

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PART I

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KONOVER PROPERTY TRUST, INC.

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Consolidated Balance Sheets (in thousands, except share data)

	March 31, (Unaudited)

	Assets
Income producing properties:	
Land	\$ 45,2
Buildings and improvements	245,3
Deferred leasing and other charges	14,5

	305,0
Accumulated depreciation and amortization	(35,8)

	269,2
Properties under development	1,0
Properties held for sale	63,1
Other assets:	
Cash and cash equivalents	18,3
Restricted cash	6,4
Tenant and other receivables, net of allowance of \$3,171 and \$2,948 at March 31, 2002 and December 31, 2001, respectively	4,4
Notes receivable	2,6
Investment in and advances to unconsolidated entities	13,0
Deferred charges and other assets	6,3

	\$ 384,6
	=====
	Liabilities and Stockholders' Equity
Liabilities:	
Debt on income properties	\$ 229,2
Capital lease obligations	
Accounts payable and other liabilities	10,7

	240,0
Commitments and contingencies	
Minority interests	4,9

Stockholders' equity:	
Convertible preferred stock, Series A, 5,000,000 shares authorized, 780,680 issued and outstanding at March 31, 2002 and December 31, 2001	18,6
Stock purchase warrants	
Common stock, \$0.01 par value, 100,000,000 shares authorized, 31,918,794 and 31,647,387 issued and outstanding at March 31, 2002 and December 31, 2001, respectively	3
Additional paid-in capital	291,0
Accumulated deficit	(170,3)
Deferred compensation - Restricted stock plan	(

	139,6

	\$ 384,6
	=====

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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
	(in thousands, except per share data)
Rental operations:	
Revenues:	
Base rents	\$ 7,914
Percentage rents	422
Property operating cost recoveries	2,183
Other income	129

	10,648

Property operating costs:	
Common area maintenance	1,061
Utilities	195
Real estate taxes	1,060
Insurance	179
Marketing	12
Other	693

	3,200
Depreciation and amortization	2,698

	5,898

	4,750
Other expenses:	
General and administrative	1,909
Stock compensation amortization	44
Operating loss of sold management business	84
Severance and other related costs	-
Interest, net	4,523

Loss from operations	(1,810)
Abandoned transaction costs	-
Equity in (earnings) losses of unconsolidated entities	(150)

Loss before minority interest	(1,660)
Minority interest	57

Net loss	(1,603)
Preferred dividends	-

Net loss applicable to common stockholders	\$ (1,603)
	=====

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Basic loss applicable to common stockholders per share	\$ (0.05)
Weighted-average number of common shares outstanding	31,767
Diluted loss applicable to common stockholders per share	\$ (0.05)
Weighted-average number of diluted shares outstanding	31,767

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

Three months ended March 31, 2002
(Unaudited)

(in thousands except share data)

	Convertible Preferred Stock	Stock Purchase Warrants	Common S
Balance at December 31, 2001	\$ 18,679	\$ 9	\$ 316
Issuance of 267,878 shares of restricted stock	-	-	3
Repurchase of 3,087 shares of restricted stock	-	-	-
Cancellation of 3,838 shares of restricted stock	-	-	-
OP units converted into 10,454 shares of common stock	-	-	-
Conversion of restricted stock into repurchase rights	-	-	-
Reclassification	-	-	-
Compensation under stock plans	-	-	-
Net loss	-	-	-
Balance at March 31, 2002	\$ 18,679	\$ 9	\$ 319

	Accumulated Deficit	Deferred Compensation Restricted Stock Plan	Tota
Balance at December 31, 2001	\$ (168,756)	\$ (2)	\$ 140,6
Issuance of 267,878 shares of restricted stock	-	(15)	4
Repurchase of 3,087 shares of restricted stock	-	-	-
Cancellation of 3,838 shares of restricted stock	-	20	-

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OP units converted into 10,454 shares of common stock	-	-	
Conversion of restricted stock into repurchase rights	-	(55)	(
Reclassification	-	(40)	
Compensation under stock plans	-	36	
Net loss	(1,603)	-	(1,6

Balance at March 31, 2002	\$ (170,359)	\$ (56)	\$ 139,6
	=====		

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)

	Thru
	200

Cash flows from operating activities:	
Net loss	\$ (1
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Amortization of debt premium	
Minority interest	2
Depreciation and amortization	
Stock compensation amortization	
Abandoned transaction costs	
Amortization of deferred financing costs	
Net changes in:	
Tenant and other receivables	
Deferred charges and other assets	
Accounts payable and other liabilities	
Restricted cash - operational escrows	

Net cash provided by (used in) operating activities	1

Cash flows from investing activities:	
Investment in income-producing properties	
Net cash acquired in connection with Sunset KPT Investment, Inc.	1
Payments received on notes receivable, net	
(Investment in and advances to) distributions from unconsolidated entities	
Change in restricted cash - investing	

Net cash provided by (used in) investing activities	

Cash flows from financing activities:	

Proceeds from debt on income properties
Repayment of debt on income properties
Deferred financing charges
Other debt repayments
Issuance of shares under employee stock purchase plan
Dividends paid
Distributions to minority member of consolidated joint venture
Exercise of stock purchase rights
Repurchase of common stock

Net increase (decrease) in cash and cash equivalents
Cash and cash equivalents at beginning of period

	17

\$	18
=====	

\$ 3

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1. Interim Financial Statements

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 acquisition, development, 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.

During 2001, the Company's Board of Directors created a Special Committee of the Board of Directors to evaluate potential long-term strategic alternatives for the Company. These alternatives may include the sale or merger of the Company or operating as a private or public company. The ultimate determination of fair value of the Company may differ from the net book value of assets recorded in the accompanying balance sheets.

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. two centers that are held for sale consisting of a 426,000-square-foot operating community shopping center and a 230,000-square-foot non-operating outlet center.

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In addition, the Company had investments in:

- .. four operating community shopping center joint-ventures with 344,000 square feet; and
- .. a land-development joint venture consisting of approximately 590 acres, which is currently held for sale.

The weighted-average square feet of gross leasable area was 4.6 million square feet for the three months ended March 31, 2001 and 9.4 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. As of March 31, 2002, 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. Sunset KPT Investment, Inc. owns undeveloped outparcels adjacent to the Millpond Village shopping center in Raleigh, North Carolina and a 60% interest in Brunswick Commercial LLC, a joint venture holding 590 acres of undeveloped land in Brunswick County, North Carolina. 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 March 31, 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,

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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.

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

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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.

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 or where control is deemed temporary 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-month period ended March 31, 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.

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 common shares").

For the three months ended March 31, 2002 and March 31, 2001, both basic and dilutive earnings per share are computed based on a weighted average number of shares of 31,767,226 and 31,173,502, respectively. Potential dilutive

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common shares of 3,480,000 and 3,624,000 have been excluded from diluted earnings per share for the three months ended March 31, 2002 and March 31, 2001, respectively, because their inclusion would be antidilutive. On February 8, 2002, 259,545 shares of restricted stock were issued in settlement of a Separation and Settlement Agreement dated March 30, 2001 with a former Executive Vice President of the Company. The cost of this settlement was recorded in 2001, the period the agreement was executed.

Dividends

The Company's policy is to make a determination regarding its dividend distributions quarterly following review of the Company's financial results, capital availability, capital expenditures and improvement needs, strategic objectives and REIT requirements. The Company's policy is to declare dividends in amounts at least equal to 90% of the Company's taxable income, which is the minimum dividend required to maintain REIT status. The Company has not paid any dividends since April 2001. The Company continually undergoes an evaluation of its capital needs, including the renovation of certain community shopping centers and reduction of debt. Consistent with the Company's policy, the Company will evaluate and determine any dividend payment each quarter based on its operating results and capital needs. Although the decision is made on a quarterly basis, the Company has no present intention to pay cash dividends until a long-term strategic direction is established.

Comprehensive Income

Comprehensive income equals net income for all periods presented.

3. Investment in and Advances to Unconsolidated Entities

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

Entity	Location	Ownership	March 31, 2002
Community Center Ventures:			(in thousands)
Atlantic Realty LLC (2 community centers)	Apex and Pembroke, NC	50%	\$ 2,559
Park Place KPT LLC	Morrisville, NC	50%	4,664
Falls Pointe KPT LLC	Raleigh, NC	50%	5,848
Taxable Subsidiaries (see Note 1):			
Sunset KPT Investment, Inc.		100%	-
truefinds.com, Inc.		100%	-
			\$ 13,071

The Company guarantees the repayment of an \$8.3 million mortgage debt for Falls Pointe KPT LLC, which is currently structured as a construction loan, due in December 2002. The Company anticipates that the debt will be refinanced and replaced with a permanent, non-recourse loan by mid-2002. The mortgage debt held by Atlantic Realty LLC and Park Place KPT LLC is non-recourse and has certain

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guarantees of the non-managing member.

4. Reportable Segments

Prior to the outlet portfolio sale in September 2001, management determined under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," it had four reportable segments: community centers, outlet centers, Vanity Fair (VF) anchored centers, and centers held for sale/redevelopment/development. The outlet segment includes properties that generate a majority of their revenue from traditional outlet manufacturers and are destination oriented. The VF-anchored segment includes properties that have less than \$1.5 million in total revenue, generate at least 20% of their revenue from VF and have less than 150,000 square feet. The 2002 presentation includes community center and held-for-sale only. The Company now includes properties under development or redevelopment in the "All others" segment column. Previously these properties had been grouped into the held-for-sale segment. The prior years segment presentation has been restated to reflect this change. The Company evaluates performance and allocates resources based on the net operating income (NOI) of the Company's investment portfolio. The accounting

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policies of the reportable segments are the same as those described in the summary of significant accounting policies. The Company's reportable segments are business units that offer retail space to varied tenants and in varied geographical areas.

(All data in thousands)

	Community Centers	Outlet Centers/(1)/	VF Centers/(1)/	Held-For Sale/(2)/	All
Three months ended March 31, 2002:					
NOI	\$ 6,137	\$ -	\$ -	\$ 1,207	\$
Total Assets	\$ 271,253	\$ -	\$ -	\$ 64,662	\$
Three months ended March 31, 2001:					
NOI	\$ 8,908	\$ 5,586	\$ 890	\$ (101)	\$
Total Assets	\$ 361,751	\$ 183,849	\$ 42,264	\$ 18,782	\$

(1) See Note 5 on property disposals.

(2) Mount Pleasant Towne Centre was classified as held-for-sale during the second quarter of 2001.

4. 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 that currently are not fully consistent with or essential to the Company's long-term strategies. 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. As part of the Company's ongoing strategic evaluation of its portfolio of assets, the Company intends to sell one remaining outlet shopping center, a 426,000-square-foot community shopping center and 590

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acres of undeveloped land in Brunswick County, North Carolina held in a joint venture. The Company continues to operate the community shopping center. The one remaining outlet shopping center had nominal rental operations in 2002 and 2001. The Company is actively marketing the properties.

The net carrying value of assets currently being marketed for sale at March 31, 2002 is \$63.1 million. The held-for-sale community center property is encumbered by \$45.9 million of indebtedness at March 31, 2002. There is no debt outstanding on the held-for-sale outlet property or the undeveloped land in Brunswick County, North Carolina.

The following summary financial information pertains to the properties held for sale at March 31, 2002 and for the three months ended March 31 (in thousands):

	2002 ----	2001 ----
Revenues	\$ 1,805	\$ 1,810
Operating expenses	598	551
	-----	-----
NOI	1,207	1,259
Depreciation and amortization	5	537
Interest, net	923	960
	-----	-----
Net income (loss)	\$ 279	\$ (238)
	=====	=====

5. Property Disposals

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. Three of the six community centers in the portfolio have outlet tenants but meet the definition of community centers, as discussed in Note 3, due to their proximity to the local market and other property characteristics. The community centers included in the portfolio were sold because they are collateral under certain common debt facilities with certain of the outlet and VF-anchored properties.

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In addition, the Company sold its Shoreside, NC community center on September 13, 2001 for \$7.5 million.

The following summary financial information pertains to the above-mentioned properties sold for the three months ended March 31, 2001 (in thousands):

Revenues	\$ 12,010
Operating expenses	4,260

Net operating income	7,750
Depreciation and amortization	2,839
Interest, net	3,326
Other	13

Net income	\$ 1,572
	=====

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6. Sale of Florida Property Management Business

On February 28, 2002, the Company sold RMC/Konover Trust LLC ("RMC"), a subsidiary of Sunset KPT Investment, Inc., to RMC Management Company LLC, a Florida limited liability company whose sole member is Suzanne L. Rice, a former officer of the Company. Under the terms of the agreement, the entity affiliated with Ms. Rice will assume the operating assets, third-party liabilities and property management and leasing contracts for 70 shopping centers totaling 6.5 million square feet. The Company's net liabilities and other obligations including office space and equipment leases and related employee benefits assumed by RMC Management Company LLC were approximately \$0.2 million. The Company will retain the Sunrise, Florida office that manages and leases five of the Company's Florida shopping centers, along with three other third-party management and leasing contracts. RMC had a net operating loss of \$0.1 million for the two-month period ending February 28, 2002. This loss is reported as "Operating loss of sold management business" in the accompanying consolidated statement of operations for 2002. The operating results of RMC for 2001, which were nominal, are included in "Equity in losses of unconsolidated entities" in the accompanying 2001 consolidated statement of operations.

7. Commitments and Contingencies

On June 11, 1999, WHE Associates, Inc., purportedly a licensed real estate broker, filed a lawsuit claiming that the Company is liable to the plaintiff for a "finder's fee" in the amount of \$2 million to \$4 million. Plaintiff sought its purported fee pursuant to both breach of contract and equitable claims. At a hearing held on January 5, 2000, the plaintiff's motion for summary judgment was denied as to its contractual claims and granted as to liability with respect to its equitable claims. The case was tried before a jury during November 2000. As the trial began, the plaintiff dismissed its contract claims and proceeded to try only the issue of damages with respect to its equitable claims. The jury returned a verdict in favor of the plaintiff as to damages with respect to those claims, and on November 27, 2000, a judgment was entered by the court in favor of the plaintiff in the amount of \$2,756,550. In an opinion issued on February 1, 2002, the Maryland Court of Special Appeals reversed the \$2,756,550, judgment on plaintiff's detrimental reliance claim entered by the Circuit Court of Baltimore City on November 27, 2000. Nevertheless, it also held that there were insufficient grounds for reversal of the verdict returned on plaintiff's remaining claims of unjust enrichment and quantum meruit. Although the appellate court left application of its ruling on the remaining claims to the trial court, it did instruct the trial court that the two remaining verdicts reflected the same damages and that the trial court should enter the judgment as to one, not both. On April 4, 2002, the trial court entered a new, significantly reduced judgment in the amount of \$1,275,000, plus interest in the amount of \$407,000. The Company paid the damages on April 4, 2002. The liability for the claim and related interest is included in "Accounts payable and other liabilities" in the accompanying consolidated balance sheets.

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. Atlantic Realty seeks equitable relief and monetary damages. The Company believes that it has meritorious defenses against Atlantic Realty's allegations and intends to vigorously defend

this litigation. Discovery in the matter is proceeding. Due to the inherent uncertainties of litigation, the Company is not able to predict the outcome of this litigation. At this time, the Company does not expect the result of this litigation to have a material adverse effect on its business, financial condition and results of operations.

On March 15, 2002, a purported class action lawsuit was filed on behalf of all shareholders of the Company not affiliated with any of the defendants in the Circuit Court for Baltimore City against the Company, certain officers and directors of the Company and Prometheus Southeast Retail Trust ("Prometheus"). The complaint alleges, among other things, that in connection with a non-binding offer by Prometheus to acquire all of the remaining shares of the Company that it does not already own, (1) Prometheus, as majority shareholder of the Company, is purportedly engaging in self dealing, acting in bad faith, and breaching its fiduciary duties toward the Company's other public shareholders, and (2) the named officers and directors of the Company, who Prometheus allegedly controls, are breaching fiduciary duties to the Company's other public shareholders. The plaintiffs seek equitable relief and monetary damages. On April 3, 2002, two additional similar purported class action lawsuits were filed. The Company believes that the defendants have meritorious defenses to the plaintiffs' allegations. The Company intends to vigorously defend this litigation.

8. 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 three months of 2002 pursuant to this lease-guarantee obligation. As of March 2002, affiliates of Mr. Konover owed approximately \$0.5 million under this lease-guarantee obligation. The Guarantor is disputing these payments. The Company is actively pursuing the resolution of these disputes.

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. Management believes that FFO, as defined herein, is an appropriate measure of the Company's operating performance because reductions for depreciation and amortization

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charges are not meaningful in evaluating the operating results of its properties, which have historically been appreciating assets.

"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. Management believes 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 March 31,	
	2002	2001
Operating Data:		
Rental revenues	\$ 10,648	\$ 22,480
Property operating costs	3,200	6,980
Net operating income	7,448	15,500
Depreciation and amortization	2,698	6,113
General and administrative	1,909	1,988
Stock compensation amortization	44	380
Operating loss of sold management business	84	-
Severance and other related costs	-	5,013
Interest, net	4,523	7,776
Abandoned transaction costs	-	38
Equity in (earnings) losses of unconsolidated entities	(150)	281
Loss before minority interest	(1,660)	(6,089)
Minority interest	57	164
Net loss	(1,603)	(5,925)
Preferred dividends	-	(271)
Loss applicable to common stockholders	\$ (1,603)	\$ (6,196)
Basic loss per common share:		
Net loss applicable to common stockholders per share	\$ (0.05)	\$ (0.20)

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Weighted-average common shares outstanding	31,767	31,174
Diluted loss per common share:		
Net loss applicable to common stockholders per share	\$ (0.05)	\$ (0.20)
Weighted-average common shares outstanding diluted	31,767	31,174

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	Three months ended March 31,	
	2002	2001
Other Data:		
EBITDA:		
Net loss	\$ (1,603)	\$ (5,925)
Adjustments:		
Interest, net	4,523	7,776
Depreciation and amortization	2,698	6,113
Stock compensation amortization	44	380
Abandoned transaction costs	-	38
Equity in (earnings) losses of unconsolidated entities	(150)	281
Minority interest	(57)	(164)
	\$ 5,455	\$ 8,499
Funds from Operations (a):		
Net loss	\$ (1,603)	\$ (5,925)
Adjustments:		
Real estate depreciation and amortization	2,425	5,812
Share of depreciation in unconsolidated entities	102	71
Minority interest in Operating Partnership	(57)	(164)
Funds From Operations	\$ 867	\$ (206)
Weighted-average shares outstanding diluted (b):	35,247	34,798
Funds Available for Distribution/Reinvestment:		
Funds from Operations	\$ 867	\$ (206)
Adjustments:		
Stock compensation amortization	44	380
Capitalized tenant allowances	(170)	(80)
Capitalized leasing costs	(168)	(455)
Recurring capital expenditures	(54)	(397)
Funds Available for Distribution/Reinvestment	\$ 519	\$ (758)

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Dividends declared on quarterly earnings	\$	-	\$	4,306
=====				
Dividends declared on quarterly earnings per share	\$	-	\$	0.125
=====				
Cash Flows:				
Cash flows provided by (used in) operating activities	\$	1,028	\$	(78)
Cash flows provided in (used in) investing activities		569		(5,448)
Cash flows used in financing activities		(896)		(889)

Net increase (decrease) in cash and cash equivalents	\$	701	\$	(6,415)
=====				

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	Balance at March 31,	
	2002	2001

Balance Sheet Data:		
Income-producing properties including net		
realizable value of properties held for		
sale (before depreciation and amortization)	\$ 368,157	\$ 714,730
Total assets	\$ 384,639	\$ 696,974
Debt on income properties	\$ 229,212	\$ 403,439
Total liabilities	\$ 240,050	\$ 430,687
Minority interest	\$ 4,952	\$ 8,070
Total stockholders' equity	\$ 139,637	\$ 258,217
Portfolio Property Data:		
Total GLA (at end of period)/(b)/	4,636	9,400
Weighted average GLA/(b)/	4,636	9,400
Number of properties (at end of period)/(b)/	33	66
Occupancy (at end of period):		
Operating - retail	85.7%	90.7%
Operating - office	38.8%	N/A
Held for sale/(b)/	95.3%	15.2%

- (a) FFO is presented in accordance with National Association of Real Estate Investment Trusts (NAREIT) Best Practices.
- (b) Excludes the Las Vegas non-operating outlet shopping center for 2002 presentation.
- (c) The following table sets forth the computation of the denominator to be used in calculating the weighted-average shares outstanding based on SFAS No. 128, "Earnings Per Share."

	March 31,	
	2002	2001

Denominator:		
Denominator- weighted average common shares	31,767	31,174
Effect of dilutive securities:		
Preferred stock	2,264	2,169
Restricted stock	298	475
Operating Partnership units	918	980

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Dilutive potential common shares	3,480	3,624

Denominator- adjusted weighted average shares and assumed conversions	35,247	34,798
	=====	

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Results Of Operations

Three Months Ended March 31, 2002 Compared to the Three Months Ended March 31, 2001

Net Income

The Company reported a net loss applicable to common stockholders of \$1.6 million, or \$(0.05) per common share, for the three months ended March 31, 2002. The same period in 2001 reflected net loss applicable to common stockholders of \$6.2 million, or \$(0.20) per common share. The elements having a material impact on the change are discussed below:

- .. The Company's NOI decreased by \$8.1 million, or 52%, to \$7.4 million from \$15.5 million for the same period in 2001. The decrease in NOI is primarily related to the sale of 33 properties in the second half of 2001. The NOI for these sold properties during the three months ended March 31, 2001 was \$7.8 million.
- .. Depreciation and amortization expense decreased by \$3.4 million due to the sale of 33 properties in the second half of 2001 and the discontinuation of depreciation of the Company's Mount Pleasant Towne Centre which is currently held for sale.
- .. General and administrative expenses including stock compensation amortization decreased \$0.4 million.
- .. Net interest expense decreased by \$3.3 million, or 42%, to \$4.5 million from \$7.8 million for the same period in 2001 resulting from the decrease in debt outstanding pursuant to the debt payoff/assumption associated with the outlet portfolio sale in September 2001.
- .. The Company incurred severance and other related costs of \$5.0 million during the three months ended March 31, 2001.

Earnings Before Interest, Taxes, Depreciation, and Amortization and Funds from Operations

EBITDA was \$5.5 million for the three months ended March 31, 2002, a decrease of \$3.0 million or 35%, from \$8.5 million for the same period in 2001. The decrease was primarily due to the decrease of \$8.1 million in NOI offset by a \$0.1 million decrease in general and administrative expenses and a decrease in severance and other related costs of \$5.0 million.

Funds from Operations ("FFO") for the three months ended March 31, 2002 increased \$1.1 million to \$0.9 million. The Company's FFO for the same period in 2001 was \$(0.2) million. FFO increased primarily as a result of:

- .. \$5.0 million in severance and other related costs incurred in 2001,
- .. a decrease in net interest expense of \$3.3 million,
- .. \$0.5 million increase in earnings from unconsolidated entities, and
- .. a decrease in general and administrative expenses including stock compensation amortization of \$0.4 million offset by an \$ 8.1 million decrease in NOI.

Tenant Income

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Base rent decreased 54% to \$7.9 million for the three months ended March 31, 2002 from \$17.1 million for the same period in 2001. The decrease in base rent for the three months ended March 31, 2002 is attributable primarily to the sale of 33 properties in the second half of 2001. The Company's weighted-average square feet of gross leasable area in operation was 48% lower for the three months ended March 31, 2002 compared to the same period in 2001.

Recoveries from tenants decreased for the three months ended March 31, 2002 to \$2.2 million compared to \$3.8 million in the same period of 2001. These recoveries represent contractual reimbursements from tenants of certain common area maintenance, real estate taxes and insurance costs. On a weighted-average square-foot basis, recoveries increased to \$0.47 for the three months ended March 31, 2002 when compared to \$0.40 for the same period in 2001.

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Other Income

Other income decreased \$1.3 million to \$0.1 million for the three months ended March 31, 2002 compared to \$1.4 million in the same period of 2001 primarily as a result of lease buyouts of \$1.3 million in the first quarter of 2001.

Property Operating Expenses

Property operating costs decreased \$3.8 million, or 54%, to \$3.2 million in 2002 from \$7.0 million in the same period of 2001. The decrease in operating costs was principally due to the decrease in the weighted-average square feet in operation in 2002, which decreased 48% to 4.9 million square feet in 2002 from 9.4 million square feet in 2001. On a weighted-average square-foot basis, operating expenses decreased to \$0.69 per weighted average square foot as compared to \$0.74 per weighted average square foot for the same period in 2001.

General and Administrative Expenses

General and administrative expenses including stock compensation for the three months ended March 31, 2002 decreased \$0.4 million, or 17%, to \$2.0 million in 2001 from \$2.4 million in the same period of 2001. General and administrative expenses including stock compensation increased as a percentage of revenues to 19% for the three months ended March 31, 2002 from 11% in the same period of 2001. The decrease is primarily related to a decrease in \$0.3 million of stock compensation amortization, \$0.3 million of rent incurred in the first quarter of 2001 for the Company's previous corporate office space and \$0.1 million incurred in the first quarter of 2001 for the Company's corporate office move to Millpond Village offset by increases in the cost of the Special Committee of the Board of Directors and financial consultants evaluating the strategic alternatives for the Company.

Depreciation and Amortization Expense

Depreciation and amortization decreased to \$2.7 million for the three months ended March 31, 2002 compared to \$6.1 million in the same period of 2001. The decrease is due to the sale of the outlet portfolio and other properties in the second half of 2001 and the discontinuation of depreciation on the Company's Mount Pleasant Towne Centre which is held for sale. Depreciation is discontinued for assets classified as held for sale.

Interest Expense

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Interest expense for the three months ended March 31, 2002, net of interest income of \$0.1 million, decreased by \$3.3 million, or 42%, to \$4.5 million compared to \$7.8 million, net of interest income of \$0.5 million, in the first three months of 2001. On a weighted-average basis, in the first three months of 2002, debt outstanding was \$229 million, and the average interest rate was 7.4%. This compares to \$401 million of outstanding debt and a 8.2% average interest rate in 2001. The reduction of debt is due to the payoff/assumption of debt associated with the outlet portfolio sale in September 2001. The Company capitalized \$0.6 million of interest costs associated with its development projects in the first three months of 2001. There was no interest capitalized during the three months ended March 31, 2002.

Impact of Known Trends and Uncertainties on Results of Operations

Owned Properties

Tenant Uncertainties

The Company has two K-Mart stores in its portfolio totaling 187,000 square feet with base rents ranging from \$4.98 to \$5.61 per square foot. K-Mart filed for bankruptcy in 2002. The Company has received a request from K-Mart on one of the stores for a 20% rent reduction. The Company is currently negotiating this issue with K-Mart. The Company does not expect this store to be closed, but the Company may see an annual rent reduction of approximately \$100,000 as a result of K-Mart's restructuring.

The Company has five Winn-Dixie stores totaling 244,000 square feet. Although one of these stores is currently unoccupied, Winn Dixie continues to pay rent.

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General and Administrative Expenses and Employee Retention

The Company down-sized its staffing levels during 2001 due to the 33 properties sold during 2001 and due to other internal cost savings efforts. The Company currently incurs approximately \$0.5 million per month in recurring general and administrative expenses. This amount does not include additional costs that may be incurred as part of the Company's evaluation of strategic alternatives and related professional advisor fees or external legal fees related to current litigation matters. General and administrative expenses will be directly impacted, up or down, based on the final strategic direction of the Company and the Company's litigation position.

While the Company continues evaluating strategic alternatives, the employees are faced with a period of uncertainty. The Company has implemented certain compensation plans to mitigate the risk of high employee turnover. The plans include enhanced severance plans and varying levels of bonuses available to employees on certain dates. The Company continues to evaluate the stability of its workforce. General and administrative expenses may be significantly impacted if additional employee incentives are required.

Possibility of Future Write-Downs

The Company continues to investigate possible transactions including asset sales or a merger or sale of the entity as a whole. The Company follows the provisions of SFAS No. 121 in determining the impairment, if any, of its current long-lived assets. The application of these provisions differ between the sale of individual assets and the sale, merger or business combination of the Company. Additional write-downs of assets may be required in sales of

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individual assets.

Unconsolidated Entities

Tenant Uncertainties

The Company's Park Place venture has a Carmike Theater with approximately 60,000 square feet of leasable area and a current base rent of \$6.17 per square foot. Carmike declared bankruptcy in August 2000. The Company agreed to a rent reduction effective March 1, 2001. Carmike continues to operate at this location. The venture continues to evaluate other re-tenanting opportunities at this location and maintains certain rights to replace this tenant under certain conditions.

Liquidity and Capital Resources

Cash Flows

The Company's cash and cash equivalents balance at March 31, 2002 was \$18.3 million. Restricted cash, as reported in the financial statements, as of such date, was \$6.5 million. The restricted cash is an amount the Company was required to escrow in connection with various loans. The escrows are required to provide additional loan collateral and to fund real estate taxes, property insurance, capital improvements and tenant replacement costs.

Net cash provided by operating activities was \$1.0 million for the three months ended March 31, 2002. Net cash provided by investing activities was \$0.6 million in that same period. The primary source and use of these funds included:

- . \$1.9 million of net cash provided by the acquisition of the remaining interest in Sunset KPT Investment, Inc. and related consolidation of this entity and its subsidiaries, offset by
- . \$0.6 million invested in income-producing properties,
- . \$0.3 million invested in or advanced to unconsolidated entities, and
- . \$0.4 million of additional restricted escrow deposits.

Net cash used in financing activities was \$0.9 million for the three months ended March 31, 2002. The primary transactions included:

- . \$0.2 million of distributions to a minority member of a consolidated joint venture,
- . \$0.5 million for debt repayments, and
- . \$0.2 million in deferred financing charges and capital lease obligation payments.

Financing Activities

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The Company's policy is to finance its activities with the source of capital believed by management to be most appropriate and provide the proper balance of equity and fixed and floating rate debt. Sources may include undistributed cash flow, borrowings from institutional lenders, equity issuances, and the issuance of debt securities on a secured or unsecured basis.

In connection with the sale of the outlet portfolio on September 25, 2001, the balances of the REMIC facility and the \$75 million permanent credit facility were paid or assumed. In addition, simultaneous with the sale, the

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Company refinanced its \$60 million term loan with a \$58 million term loan. The \$58 million term loan has an interest rate of LIBOR, with a floor of 4.0% plus 3.20%, and expires in November 2003. The term loan can be extended for an additional year providing there are no events of default and the Company extends an interest rate protection agreement for the period of extension.

On January 11, 2000, the Company closed on a \$5 million line of credit with a financial institution. In March, 2000, the available borrowings were increased by \$5 million to \$10 million. The line of credit has an interest rate of LIBOR plus 2.0%. The line of credit balance as of March 31, 2002 was \$10 million and matures in May 2002. The line of credit is secured by a community shopping center in Georgia. The Company is in the process of negotiating an extension to the term of the line of credit and reducing the principal by \$1 to \$2 million.

The Company may enter into additional mortgage indebtedness related to certain joint venture development projects. The Company's policy is to extend loans to unconsolidated entities only upon terms similar to those that would be made by third parties.

Any additional debt financing, including additional lines of credit, may be secured by mortgages on the properties. Such mortgages may be recourse or non-recourse or cross-collateralized or may contain cross-default provisions. The Company does not have a policy limiting the number of mortgages that may be placed on or the amount of indebtedness that may be secured by, a particular property; however, current mortgage financing instruments limit additional indebtedness on such properties.

Current Cash Needs

Capital Expenditures

The Company anticipates capital expenditures needed to maintain its owned and venture properties will be approximately \$2.3 million during 2002. In addition, the Company plans to remodel the Lake Washington shopping center in Florida. The Company estimates the remodeling will cost approximately \$0.5 million in 2002. The Company's current plan also includes an investment of \$0.5 million to \$1.0 million in its Mobile Festival center located in Alabama during 2003. The Company anticipates that cash generated from operations will provide these funds.

Tenant Allowance and Upfit

The Company's plan for normal recurring lease up of space includes an estimated \$5 to \$10 per square foot leased for tenant allowance and/or upfit costs. Annual expenditures depend on leasing activity. The cost per square foot could be significantly higher depending on the tenant mix and overall market conditions. If the Company proceeds with its plans at Mobile Festival, tenant allowance and upfit costs may be significantly higher than normal. The Company anticipates that cash generated from operations will provide sufficient funds for these expenditures.

Development Properties

The construction loan on the Millpond Village shopping center in Raleigh, North Carolina becomes due in December 2002. The ability for the Company to refinance the entire construction loan balance depends on the status of the lease up phase of the property. The Company believes leasing activity for 2002 and the cash on hand will enable the Company to refinance this debt or obtain an extension of the debt along with a manageable level of principal reduction.

The construction loan on the Falls Pointe shopping center in Raleigh, North Carolina becomes due in December 2002. The Falls Pointe shopping center is 94% leased and the venture is currently in the process of obtaining permanent financing. The Company anticipates the refinancing will be completed in the second quarter of 2002 and will generate cash proceeds in excess of the construction loan. The venture plans to make distributions of this excess cash in 2002.

Park Place Venture

The debt on the Park Place shopping center in North Carolina becomes due in August 2002. The venture recently met with the current lender and requested a one-year extension on the loan. The venture believes that with continued operations and rent payments from Carmike, a tenant in bankruptcy, and the successful completion of out parcel sales pledged to be used to reduce debt principal and normal principal payments through August 2002, it will be able to refinance the loan. The venture may be required to make a capital call from the venture partners or request a loan from the Company to complete the refinancing process. Any cash needed from the Company would be funded from the Company's available cash on hand. The Company believes it has adequate cash available to fund the potential needs of this venture, if needed.

WHE Associates, Inc. Litigation

The Company paid damages in the WHE Associates, Inc. litigation of approximately \$1.7 million in April 2002. The damages were paid from current cash on hand.

Merchant's Festival Line of Credit

The Company currently has \$10 million outstanding on its line of credit secured by the Merchant's Festival shopping center in Georgia. The line of credit expires in May 2002. The Company is in the process of obtaining an extension of the line of credit through December 2002. The Company anticipates a required principal reduction of \$1 to \$2 million to enable the debt to be extended. The Company will use current available cash to pay the principal reduction.

Celebration Shopping Center

The debt on the Company's Celebration shopping center in North Carolina of \$5.2 million becomes due in December 2002. The Company is in the process of refinancing the debt and does not believe a principal reduction will be required.

Towne Centre

The Company believes it will sell Towne Centre shopping center located in Mount Pleasant, South Carolina during 2002. It is expected that the sale of the property would generate significant net proceeds in 2002.

Variable Rate Debt

The Company has \$85.5 million of variable rate debt on its owned properties. If interest rates rose 100 basis points, it would increase annual interest costs by approximately \$0.9 million. The Company anticipates cash generated from operations and its current available cash would be sufficient to cover its debt service costs on variable rate debt.

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Long-Term Cash Needs

Term Loan Due 2003

The Company's \$58 million term loan expires in November 2003. The Company can extend the loan for one additional year as long as the Company does not have any loan defaults and agrees to extend its interest rate protection agreement on the loan. The Company believes it will be successful in refinancing this term loan given the expected property operations and its anticipated remaining cash reserves at the time of refinancing.

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Las Vegas

The Company continues to market its Las Vegas property. The property consists of 25.7 acres of land and a 229,959-square-foot center previously operated as an outlet shopping center. The property is unencumbered and all sales proceeds would be available to the Company. The current economic conditions make it difficult to estimate the timing of the sale of this property.

Lazard Transaction

On August 5, 1998, stockholders approved the Lazard transaction involving Prometheus Southeast Retail LLC's \$200 million purchase of the Company's Common Stock at \$9.50 per share. All funds were used in 1999 and 1998 to fund acquisitions, debt retirement, investments in ventures, common stock repurchases and development.

As part of the Lazard transaction, the Company signed a Contingent Value Rights Agreement with PSR. Under this agreement, if PSR has not essentially doubled its investment (through stock appreciation and dividends) by January 1, 2004, the Company will be required to pay PSR, in cash or stock at its discretion, an amount necessary to achieve such a return, subject to a maximum payment of 4,500,000 shares or the cash value thereof.

Dividends

The Company's policy is to make a determination regarding its dividend distributions quarterly following review of the Company's financial results, capital availability, capital expenditures and improvement needs, strategic objectives and REIT requirements. The Company's policy is to declare dividends in amounts at least equal to 90% of the Company's taxable income, which is the minimum dividend required to maintain REIT status. The Company has not paid any dividends since April 2001. The Company continually undergoes an evaluation of its capital needs, including the renovation of certain community shopping centers and reduction of debt. Consistent with the Company's policy, the Company will evaluate and determine any dividend payment each quarter based on its operating results and capital needs. Although the decision is made on a quarterly basis, the company has no present intention to pay cash dividends until a long-term strategic direction is established.

Economic Conditions

Inflation has remained relatively low during the past three years with certain segments of the economy experiencing disinflation, such as apparel sales. Disinflation in this market segment has slowed the growth of tenant sales, which adversely affects the Company's revenue due to lower percentage and

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overage rents on some properties. Any weakness in the overall retail environment as it relates to tenant sales volumes may have an impact on the Company's ability to renew leases at current rental rates or to re-lease space to other tenants. A decline in sales can effect renewal of tenant leases as well as the viability of the tenant, which could result in reduced revenue. Percentage and overage rent are directly impacted by sales volumes and represented 4% and 2% of the Company's total revenue for the three months ended March 31, 2002 and 2001, respectively. Continuation of this economic trend may affect the Company's operating centers' occupancy rates, rental rates, and concessions, if any, granted on new leases or re-leases of space. This in turn may cause fluctuations in the cash flow from the operation and performance of the operating centers.

Disclosure Regarding Forward Looking Statements

Some of the information in this Quarterly Report on Form 10-Q are forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." You can identify forward-looking statements by our use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue," or other similar words. Although we believe that our plans, projections and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that our plans, projections or expectations will be achieved. When considering such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- .. our markets could suffer unexpected increases in development of competitive retail properties;
- .. the financial condition of our tenants could deteriorate;
- .. the costs of our development projects could exceed our original estimates;

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- .. we may not be able to complete development or joint venture projects as quickly or on as favorable terms as anticipated;
- .. we may not be able to lease or re-lease space quickly or on as favorable terms as old leases;
- .. we may have incorrectly assessed the environmental condition of our properties;
- .. we may not be able to refinance debt on as favorable terms as anticipated;
- .. an increase in interest rates would increase our debt service costs;
- .. we could lose key executive officers and employees and/or the cost to retain such personnel may increase;
- .. our markets may suffer decline in economic growth or increase in unemployment rates;
- .. the perception of community shopping centers by investors might deteriorate;
- .. general and administrative costs, as a percentage of revenue, may increase as the size of portfolio decreases.

Given these uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

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Item 3 - Quantitative and Qualitative Disclosures about Market Risk

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes "forward-looking statements" and represents an estimate of possible changes in future earnings that would occur assuming hypothetical future movements in interest rates. These disclosures are not precise indicators of expected future results, but only indicators of reasonably possible results. As a result, actual future results may differ materially from those presented. See "Management's Discussion and Analysis of Results of Operations - Liquidity and Capital Resources," which provides information related to these financial instruments.

To meet in part long-term liquidity requirements, the Company borrows funds at a combination of fixed and variable rates. In addition, the Company has assumed fixed rate debt in connection with acquiring properties. 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 our overall borrowing costs. Currently, the Company is party to an interest rate agreement which limits the interest to a maximum of 9.66% on \$58.0 million of variable rate debt. As of March 31, 2002, the Company had approximately \$85.5 million of variable rate debt outstanding. If the weighted-average interest rate on this variable rate debt is 100 basis points higher or lower in 2002, our interest expense would have increased or decreased approximately \$0.2 million for the three months ended March 31, 2002. The Company has \$5.2 million of fixed rate debt maturing in 2002.

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PART II

Item 1. Legal Proceedings

On June 11, 1999, WHE Associates, Inc., purportedly a licensed real estate broker, filed a lawsuit claiming that the Company is liable to the plaintiff for a "finder's fee" in the amount of \$2 million to \$4 million. Plaintiff sought its purported fee pursuant to both breach of contract and equitable claims. At a hearing held on January 5, 2000, the plaintiff's motion for summary judgment was denied as to its contractual claims and granted as to liability with respect to its equitable claims. The case was tried before a jury during November 2000. As the trial began, the plaintiff dismissed its contract claims and proceeded to try only the issue of damages with respect to its equitable claims. The jury returned a verdict in favor of the plaintiff as to damages with respect to those claims, and on November 27, 2000, a judgment was entered by the court in favor of the plaintiff in the amount of \$2,756,550. In an opinion issued on February 1, 2002, the Maryland Court of Special Appeals reversed the \$2,756,550, judgment on plaintiff's detrimental reliance claim entered by the Circuit Court of Baltimore City on November 27, 2000. Nevertheless, it also held that there were insufficient grounds for reversal of the verdict returned on plaintiff's remaining claims of unjust enrichment and quantum meruit. Although the appellate court left application of its ruling on the remaining claims to the trial court, it did instruct the trial court that the two remaining verdicts reflected the same damages and that the trial court should enter the judgment as to one, not both. On April 4, 2002, the trial court entered a new, significantly reduced judgment in the amount of \$1,275,000, plus interest in the amount of \$407,000. The Company paid the damages on April 4, 2002.

The Company previously formed a joint venture, Atlantic Realty LLC, with Effell LLC for the development, ownership and operation of Peak Plaza

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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. Atlantic Realty seeks equitable relief and monetary damages. The Company believes that it has meritorious defenses against Atlantic Realty's allegations and intends to vigorously defend this litigation. Discovery in the matter is proceeding. Due to the inherent uncertainties of litigation, the Company is not able to predict the outcome of this litigation. At this time, the Company does not expect the result of this litigation to have a material adverse effect on its business, financial condition and results of operations.

On March 15, 2002, a purported class action lawsuit was filed on behalf of all shareholders of the Company not affiliated with any of the defendants in the Circuit Court for Baltimore City against the Company, certain officers and directors of the Company and Prometheus Southeast Retail Trust ("Prometheus"). The complaint alleges, among other things, that in connection with a non-binding offer by Prometheus to acquire all of the remaining shares of the Company that it does not already own, (1) Prometheus, as majority shareholder of the Company, is purportedly engaging in self-dealing, acting in bad faith, and breaching its fiduciary duties toward the Company's other public shareholders, and (2) the named officers and directors of the Company, who Prometheus allegedly controls, are breaching fiduciary duties to the Company's other public shareholders. The plaintiffs seek equitable relief and monetary damages. On April 3, 2002, two additional similar purported class action lawsuits were filed. The Company believes that the defendants have meritorious defenses to the plaintiffs' allegations. The Company intends to vigorously defend this litigation.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

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None

Item 6. Exhibits and Reports on Form 8-K

- (a) (1) Included with this report is the following exhibit

Exhibit #	Title
10.1	Form of Indemnification Agreement entered into with members of the Special Committee of the Board of Directors

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None

(b) Reports on Form 8-K

None

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Signatures

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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.

KONOVER PROPERTY TRUST, INC.

Date: May 14, 2002

By: /S/Daniel J. Kelly

Executive Vice President and Chief Financial Officer

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