SIZELER PROPERTY INVESTORS INC
Form 10-Q
August 09, 2004
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from ______________________ to

Commission file number 1-09349

SIZELER PROPERTY INVESTORS, INC.

(Exact name of registrant as specified in its charter)

MARYLAND	**72-1082589**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
2542 WILLIAMS BOULEVARD, KENNER, LOUISIANA	**70062**
(Address of principal executive offices)	**(Zip code)**

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

13,219,685 shares of Common Stock ($.0001 Par Value) were outstanding as of July 30, 2004.

Table of Contents

Sizeler Property Investors, Inc. and Subsidiaries

INDEX

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Sizeler Property Investors, Inc. and Subsidiaries

Consolidated Balance Sheets

	June 30 2004	December 31 2003
	(Unaudited)	(Audited)
ASSETS		
Real estate investments (Notes A and C):		
Land	$ 55,955,000	$ 55,653,000
Buildings and improvements, net of accumulated depreciation of $114,829,000 in 2004 and $108,594,000 in 2003	240,785,000	221,111,000
Construction in progress	5,610,000	18,067,000
Investment in real estate partnership	940,000	806,000
	303,290,000	295,637,000
Cash and cash equivalents	5,823,000	3,565,000
Accounts receivable and accrued revenue, net of allowance for doubtful accounts of $183,000 in 2004 and $62,000 in 2003	2,128,000	2,697,000
Prepaid expenses and other assets	12,664,000	13,999,000
Total Assets	$ 323,905,000	$ 315,898,000
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Mortgage notes payable (Note D)	$ 113,425,000	$ 109,140,000
Notes payable	54,951,000	50,100,000
Accounts payable and accrued expenses	13,099,000	8,251,000
Tenant deposits and advance rents	1,019,000	954,000
	182,494,000	168,445,000
Convertible subordinated debentures	56,599,000	56,599,000
Total Liabilities	239,093,000	225,044,000
SHAREHOLDERS EQUITY		
Series A preferred stock, 40,000 shares authorized, none issued		
Series B preferred stock, par value $0.0001 per share, liquidation preference $25 per share, 2,476,000 shares authorized, 336,000 issued and outstanding in 2004 and 2003	1,000	1,000

Common stock, par value $0.0001 per share, 51,484,000 shares authorized, shares issued and outstanding 13,176,000 in 2004 and 13,091,000 in 2003	1,000	1,000
Excess stock, par value $0.0001 per share, 16,000,000 authorized, none issued		
Additional paid-in capital	170,290,000	169,490,000
Accumulated other comprehensive gain (loss)	15,000	(18,000)
Cumulative net income	45,580,000	45,997,000
Cumulative distributions paid	(131,075,000)	(124,617,000)
Total Shareholders Equity	84,812,000	90,854,000
Total Liabilities and Shareholders Equity	$ 323,905,000	$ 315,898,000

See notes to consolidated financial statements.

Table of Contents

Sizeler Property Investors, Inc. and Subsidiaries

Consolidated Statements of Income

(unaudited)

	Quarter Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
OPERATING REVENUES (Note A)				
Contractual rental income and charges	$ 13,230,000	$ 12,255,000	$ 26,236,000	$ 24,859,000
Other income	559,000	470,000	1,062,000	1,023,000
Total Operating Revenues	13,789,000	12,725,000	27,298,000	25,882,000
OPERATING EXPENSES				
Utilities	697,000	630,000	1,349,000	1,173,000
Real estate taxes	1,148,000	1,050,000	2,297,000	2,095,000
Administrative expenses	1,782,000	1,521,000	3,527,000	3,338,000
Operations and maintenance	2,206,000	2,015,000	4,410,000	4,060,000
Other operating expenses	1,187,000	1,342,000	2,647,000	2,750,000
Depreciation and amortization	3,279,000	2,925,000	6,612,000	5,810,000
Total Operating Expenses	10,299,000	9,483,000	20,842,000	19,226,000
INCOME FROM OPERATIONS	3,490,000	3,242,000	6,456,000	6,656,000
Interest expense	3,604,000	2,970,000	7,052,000	6,101,000
NET (LOSS) INCOME BEFORE EQUITY IN INCOME OF PARTNERSHIP	(114,000)	272,000	(596,000)	555,000
Equity in income of partnership	29,000	27,000	178,000	41,000
NET (LOSS) INCOME	$ (85,000)	$ 299,000	$ (418,000)	$ 596,000
NET (LOSS) INCOME ALLOCATION:				
Allocable to preferred shareholders	205,000	205,000	410,000	410,000
Allocable to common shareholders	(290,000)	94,000	(828,000)	186,000
NET (LOSS) INCOME	(85,000)	$ 299,000	$ (418,000)	$ 596,000
Net (loss) income per common share basic and diluted	(0.02)	$ 0.01	$ (0.06)	$ 0.01
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	13,166,000	13,085,000	13,146,000	13,084,000

See notes to consolidated financial statements.

Table of Contents

Sizeler Property Investors, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended June 30	
	2004	**2003**
OPERATING ACTIVITIES:		
Net (loss) income	$ (418,000)	$ 596,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	6,612,000	5,810,000
Decrease in accounts receivable and accrued revenue	569,000	925,000
Decrease (increase) in prepaid expenses and other assets	924,000	(839,000)
Increase (decrease) in accounts payable and accrued expenses	2,607,000	(849,000)
Net Cash Provided by Operating Activities	10,294,000	5,643,000
INVESTING ACTIVITIES:		
Acquisitions of and improvements to real estate investments	(13,754,000)	(18,076,000)
Net Cash Used in Investing Activities	(13,754,000)	(18,076,000)
FINANCING ACTIVITIES:		
Principal payments on mortgage notes payable	(1,188,000)	(1,248,000)
Proceeds from mortgage notes payable	5,473,000	
Net proceeds from notes payable to banks	7,093,000	20,099,000
(Increase) decrease in mortgage escrow deposits	(2,000)	55,000
Cash distributions to shareholders	(6,458,000)	(6,427,000)
Purchase of company stock	(27,000)	(334,000)
Proceeds from issuance of shares of common stock pursuant to direct stock purchase, stock option, and stock award plans	827,000	263,000
Net Cash Provided by Financing Activities	5,718,000	12,408,000
Net increase (decrease) in cash and cash equivalents	2,258,000	(25,000)
Cash and cash equivalents at beginning of year	3,565,000	3,648,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 5,823,000	$ 3,623,000
Cash interest payments, net of capitalized interest	$ 7,003,000	$ 6,052,000

See notes to consolidated financial statements.

5

Table of Contents

Sizeler Property Investors, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2004

NOTE A BASIS OF PRESENTATION

As of June 30, 2004, the Company s real estate portfolio included interests in sixteen shopping centers and sixteen apartment communities. The Company holds, directly or indirectly through wholly-owned subsidiaries, a fee interest in thirty of its properties, and long-term ground leases on the remaining two properties Southwood Shopping Center in Gretna, Louisiana and Westland Shopping Center in Kenner, Louisiana. Fifteen properties are held through partnerships and limited partnerships whereby the owners are wholly-owned subsidiaries of Sizeler Property Investors, Inc. One of the properties, Southwood Shopping Center, is owned by a partnership of which the Company has a 50% interest. The other sixteen properties in the portfolio are held through wholly-owned subsidiary corporations and limited liability companies. The Company, the wholly-owned subsidiaries, partnerships and limited partnerships, are referred to collectively as the Company.

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

Operating results for the three and six month periods ended June 30, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The consolidated balance sheet at December 31, 2003, has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Sizeler Property Investors, Inc. Annual Report on Form 10-K for the year ended December 31, 2003.

NOTE B RECLASSIFICATIONS

Certain reclassifications have been made in the 2003 consolidated financial statements to conform with the 2004 consolidated financial statement presentation.

NOTE C REAL ESTATE INVESTMENTS

The Company allocates the purchase price of each acquired investment property between land, building and improvements, other intangibles (including acquired above market leases, acquired below market leases, customer relationships and acquired in place leases) and any assumed financing that is determined to be above or below market terms. The Company uses the information contained in the third party appraisals as the primary basis for allocating the purchase price between land and site improvements. The aggregate value of other intangibles is measured based on the difference between the purchase price and the property valued as if vacant.

In April 2002, the Company executed a construction contract for approximately $12.0 million for the construction of the second phase of its Governors Gate apartment community located in Pensacola, Florida. This project was completed in February 2004 adding 204 new units to the existing portfolio. In August 2002, the Company executed a construction contract for approximately $10.9 million for the construction of Greenbrier Estates, a new apartment community in proximity to the Company s North Shore Square Mall located in Slidell, Louisiana. This project was completed in June 2004 adding 144 new units to the existing portfolio. The Company s policy is to have all material construction contracts joined by a financial surety to insure performance by the general contractor. For the three months and six months ended June 30, 2004, the Company capitalized $183,000 and $459,000 in interest costs related to Greenbrier Estates and other developments.

6

Table of Contents

NOTE D MORTGAGE NOTES PAYABLE

The Company s mortgage notes payable are secured by certain land, buildings and improvements. At June 30, 2004, mortgage notes payable totaled approximately $113.4 million. Individual notes ranged from $782,000 to $21.9 million, with fixed rates of interest ranging from 6.85% to 8.25% and maturity dates ranging from May 1, 2008 to January 1, 2013. Net book values of properties securing these mortgage notes payable totaled approximately $144.3 million at June 30, 2004, with individual property net book values ranging from $2.2 million to $30.0 million.

NOTE E SEGMENT DISCLOSURE

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

The Company assesses and measures segment operating results based on a performance measure referred to as net operating income and is based on the operating revenues and operating expenses directly associated with the operation of the real estate properties (excluding depreciation and amortization, administrative and interest expense). Net operating income is not a measure of operating results as measured by GAAP, and should not be considered an alternative to net income as a measure of the Company s operating performance and to cash flows as a measure of liquidity.

The operating revenue, operating expenses and net operating income for each of the reportable segments are summarized below for the three month periods ended June 30, 2004 and 2003.

	(in thousands)			(in thousands)		
	Three Months Ended June 30, 2004			Three Months Ended June 30, 2003		
	Retail	**Apartments**	**Total**	**Retail**	**Apartments**	**Total**
Operating revenues	$ 7,307	$ 6,482	$ 13,789	$ 7,028	$ 5,697	$ 12,725
Operating expenses	(2,320)	(2,918)	(5,238)	(2,325)	(2,712)	(5,037)
	4,987	3,564	8,551	4,703	2,985	7,688
Administrative expenses			(1,782)			(1,521)
Depreciation and amortization			(3,279)			(2,925)
Income from operations			3,490			3,242
Interest expense			(3,604)			(2,970)
Net (loss) income before equity in income of partnership			(114)			272
Equity in income of partnership			29			27
Net (loss) income			$ (85)			$ 299

7

Table of Contents

The operating revenue, operating expenses, net operating income and real estate investments for each of the reportable segments are summarized below for the six month periods ended June 30, 2004 and 2003.

	(in thousands)			(in thousands)		
	Six Months Ended June 30, 2004			Six Months Ended June 30, 2003		
	Retail	Apartments	Total	Retail	Apartments	Total
Operating revenues	$ 14,677	$ 12,621	$ 27,298	$ 14,428	$ 11,454	$ 25,882
Operating expenses	(4,885)	(5,818)	(10,703)	(4,591)	(5,487)	(10,078)
	9,792	6,803	16,595	9,837	5,967	15,804
Administrative expenses			(3,527)			(3,338)
Depreciation and amortization			(6,612)			(5,810)
Income from operations			6,456			6,656
Interest expense			(7,052)			(6,101)
Net (loss) income before equity in income of partnership			(596)			555
Equity in income of partnership			178			41
Net (loss) income			$ (418)			$ 596

	June 30	
	2004	2003
Gross real estate investments		
Retail	$ 229,953	$ 220,064
Apartments	188,166	163,941
	418,119	384,005
Less: Accumulated depreciation	(114,829)	(102,785)
Net real estate investment	$ 303,290	$ 281,220

NOTE F ACCOUNTING PRONOUNCEMENTS

In December 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, (revised December 2003) (FIN 46R) *Consolidation of Variable Interest Entities*, which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, which was issued in January 2003. The Company was required to evaluate the applicability of FIN 46R in the six month period ended June 30, 2004. The Company determined that it has no variable interest entities.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 affects the issuer s accounting for three types of freestanding financial instruments. One type is mandatory redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments that are liabilities under this Statement is obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer s shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an impact on the Company s financial statements.

Statement of Financial Accounting Standards No. 148 (SFAS No. 148), *Accounting for Stock Based Compensation- Transition and Disclosure*, requires that the Company disclose the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock based employee compensation. No new options were granted in the first six months of 2004 or 2003 and, therefore, net income and earnings per share were not affected for the first six months of 2004 and 2003, respectively.

Table of Contents

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

Sizeler Property Investors, Inc.:

We have reviewed the accompanying consolidated balance sheet of Sizeler Property Investors, Inc. and subsidiaries (the Company) as of June 30, 2004, and the related consolidated statements of income for the three and six-month periods ended June 30, 2004 and 2003 and the related consolidated statements of cash flows for the six month periods ended June 30, 2004 and 2003. These consolidated financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards established by the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards established by the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Sizeler Property Investors, Inc. and subsidiaries as of December 31, 2003, and the related consolidated statements of income, shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated January 30, 2004, except for Note I, as to which the dates are February 16, 2004, March 5, 2004 and March 9, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2003, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG LLP

New Orleans, Louisiana

July 22, 2004

Table of Contents

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

Comparison of the Three Months Ended June 30, 2004 and 2003

Total operating revenues were $13.8 million for the three-month period ended June 30, 2004, compared to $12.7 million earned a year ago. Operating revenues for the second quarter of 2004 were positively affected by the acquisition of Florida Shores Plaza Shopping Center in the retail portfolio and the delivery of apartment units in two development projects subsequent to the second quarter of 2003. Second quarter operating costs were $5.2 million in 2004, compared to $5.0 million in 2003. The increase in operating costs was primarily attributable to the above described acquisition and delivery of apartment units.

Administrative expenses increased approximately $261,000 in the second quarter of 2004 due primarily to increased legal cost as well as increased employee benefit cost.

Interest expense for the three months ended June 30, 2004 increased approximately $634,000 compared to the same period last year, due primarily to higher balances on the Company s lines of credit and lower amounts of interest capitalized on construction projects.

For the three months ended June 30, 2004, the net loss was $85,000, compared to net income of $299,000 in the prior year s quarter. The net loss allocated to common shareholders was $290,000 in the current year s quarter, compared to net income available to common shareholders of $94,000 for the same period last year. The decrease is due primarily to the above mentioned items and an increase in depreciation expense in 2004 due to the above described property acquisition, delivery of apartment units currently in a lease-up phase and the renovation of existing properties in the Company s portfolio.

Comparison of the Six Months Ended June 30, 2004 and 2003

Total operating revenues were $27.3 million for the six-month period ended June 30, 2004, compared to $25.9 million a year ago. Operating revenues for the first six months of 2004 were positively affected by the acquisition of Florida Shores Plaza Shopping Center in the retail portfolio and the delivery of apartment units in two development projects subsequent to the second quarter of 2003. Operating costs were $10.7 million in 2004, compared to $10.1 million in 2003. The increase in operating costs was primarily attributable to the above described acquisition and the delivery of apartment units and cost associated with retail tenant bankruptcies.

Administrative expenses increased approximately $189,000 in the first six months of 2004 compared to the same period in 2003 due primarily to increased legal cost as well as increased employee benefit cost.

Interest expense for the six months ended June 30, 2004, increased approximately $951,000 compared to the same period last year, due primarily to less capitalized interest costs and higher balances on the Company s lines of credit. During the second six months of the year, the Company capitalized $459,000 in interest costs in 2004, as compared to $816,000 in the prior year s period.

For the six months ended June 30, 2004, net loss was $418,000, compared to net income of $596,000 in the prior year. Net loss allocated to common shareholders was $828,000 in the first six months of the current year, compared to net income available to common shareholders of $186,000 for the same period last year.

Table of Contents

Liquidity and Capital Resources

The sources of working capital for the Company on both a short-term and long-term basis are provided by operating activities, from which the Company funds normal operating requirements, periodic distributions to investors and capital expenditure requirements, supplemented by mortgage financings of properties in its portfolio. Sixteen of the Company s existing properties are currently unencumbered by mortgage debt. At June 30, 2004, the Company had $5.8 million in cash and cash equivalents. In addition, the Company maintains unsecured credit lines with commercial banks, which it utilizes to temporarily finance the cost of portfolio growth, property improvements, and other expenditures. These bank lines of credit total $60 million of which approximately $5.0 million was available at June 30, 2004. Utilization of the bank lines is subject to certain restrictive covenants that impose maximum borrowing levels by the Company through the maintenance of prescribed financial ratios:

Minimum net worth, adding back accumulated depreciation must exceed $115 million

Debt to equity ratio must not exceed 140%

Annual distribution to annual funds from operations must not exceed 100%

Unencumbered assets to committed bank lines must exceed 100%

Interest coverage funds from operations plus interest expense must exceed 150% of interest expense

The ratio of net operating income from unencumbered assets to funded portion of committed bank lines must exceed 15% of funded bank lines

The ratio of funds from operations from unencumbered assets to interest expense on funded unsecured debt must exceed 200% of interest expense

From time to time, the Company has obtained waivers of covenants when necessary. As of June 30, 2004, there were no unresolved issues regarding these covenants. The Company continually reassesses available sources of liquidity and capital financing alternatives and it currently believes that the sources discussed above will be adequate to fund its capital requirements for the reasonably foreseeable future which the Company considers to be the next twelve months. To the extent that the Company is able to reasonably project its capital requirements beyond twelve months, it estimates that it has the ability to obtain mortgage financing with respect to one or more of its sixteen currently unencumbered properties. In addition, the Company periodically assesses the strategic desirability of selling certain of its current properties, and it may look to such sales in lieu of or in combination with additional mortgages to fund its capital requirements.

Net cash flows provided by operating activities increased approximately $4.7 million in 2004 compared to the same period in 2003. The increase was principally attributable to the timing in payment of certain expenses as compared to the prior year s period.

Net cash flows used in investing activities decreased approximately $4.3 million in 2004 from 2003, primarily attributable to decreased development activities. The Company completed construction of the second phase of its Governors Gate apartment complex in Pensacola, Florida in February 2004 and a new apartment community in Slidell, Louisiana in June 2004. During the first six months of 2004, the Company capitalized $459,000 in interest costs related to these and other developments.

Net cash flows provided by financing activities decreased approximately $6.7 million in 2004 from 2003 due to a $13.0 million reduction in borrowing activity from notes payable to banks partially offset by an increase of $5.5 million in mortgage notes payable, and a reduction in the repurchase of Company stock of $307,000. As of June 30, 2004, the Company had mortgage debt of $113.4 million. All of these mortgages are non-recourse and bear fixed rates of interest for a fixed term. The Company has a 50% interest in a partnership which owns the Southwood Shopping Center located in Gretna, Louisiana. This property is subject to a mortgage for which the other 50% owner is liable. This mortgage was paid off subsequent to June 30, 2004 by the other 50% owner. Sixteen of the Company s existing properties are currently unencumbered by mortgage debt. The Company anticipates that its current cash balance, operating and investing cash flows, and borrowings (including borrowings under its lines of credit and mortgage debt) will be adequate to fund the Company s future (i) operating and administrative expenses, (ii) debt service obligations, (iii) distributions to common and preferred shareholders, (iv) capital improvements on existing properties, (v) development of new properties, and (vi) normal repair and maintenance expenses at its properties.

Contractual Obligations

The Company purchased all of the outstanding shares of Siz-Investors, Inc., Siz-Magnolia, Inc. and Siz-Development, Inc. as described as a subsequent event in Note I to the Consolidated Financial Statements included in the Company s Form 10-K

Table of Contents

for the year ended December 31, 2003. There were no other material changes outside the ordinary course of the Company s business with respect to the Company s contractual obligations during the six months ended June 30, 2004.

The Company currently has a long-term ground lease obligation at Westland Shopping Center. The Westland lease requires the Company to pay annually 8% of the total rent collected, and expires on December 31, 2046. The Company contractually paid ground rent of $63,000 in 2003, $65,000 in 2002 and $61,000 in 2001.

The Company also has a long-term ground lease obligation at Southwood Shopping Center. The Southwood lease requires the Company to pay annually 50% of cash flow after debt service and certain other adjustments, and expires on March 31, 2031. The Company paid ground rent of $10,000 in 2003, $27,000 in 2002 and $0 in 2001.

Holders of the Company s Series B cumulative redeemable preferred stock are entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available for the payment of distributions, preferential cumulative cash distributions at the rate of 9.75% per annum of the liquidation preference per share (equivalent to a fixed annual amount of $2.4375 per share). Distributions on the Series B preferred stock will be payable quarterly in arrears on the fifteenth day of February, May, August and November of each year, or, if not a business day, the next succeeding business day.

The Company s current common stock distribution policy is to pay quarterly distributions to shareholders, based upon, among other things, funds from operations, as opposed to net income. Because funds from operations excludes the deduction of non-cash charges, principally depreciation on real estate assets, quarterly distributions will typically be greater than net income and may include a tax-deferred return of capital component. The Board of Directors, on August 6, 2004, declared a cash distribution on common stock of $0.10 per share for the period March 31, 2004 through June 30, 2004, payable on September 3, 2004 to shareholders of record as of August 27, 2004.

Funds From Operations

The Company defines Funds from Operations (FFO) as net income, computed in accordance with accounting principles generally accepted in the United States of America (GAAP), excluding gains or losses from sales of property; those items defined as extraordinary under GAAP; plus depreciation on real estate assets and after similar adjustments for unconsolidated partnerships (and joint ventures). Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect funds from operations on the same basis.

FFO is a key operating measure used by the Company s management in evaluating current operating performance as well as trends in operating performance. Management also uses FFO to compare the Company s operating performance with other equity REITs, particularly those who own retail and apartment properties. We also consider FFO, as well as other criteria, in evaluating and granting incentive compensation to our management. The Company believes that FFO is helpful to investors as a measure of the performance of an equity REIT.

In computing FFO, the Company excludes the effect of depreciation, amortization and gains and losses from sales of real estate. In the Company s view, these amounts, which are derived from historical cost, are of limited relevance in evaluating current performance. The Company s experience, and the experience of other owners of shopping centers and apartment communities, is that depreciation and amortization have no correlation with changes in the value of the properties. Real estate assets can also appreciate, rather than depreciate in value over time. Management believes that FFO, by excluding such items (which can vary among owners of similar assets in similar condition based on historical cost accounting and useful life estimates) can help compare the operating performance of a company s real estate between periods or as compared to different companies. The Company believes that use of FFO may also facilitate comparisons of operating performance between operating periods and among us and other equity REITs. The Company s FFO may not be comparable to FFO reported by other REITs.

Other REITs may not define the term in a comparable manner or may use different interpretations in the calculation. Investors should review FFO, along with GAAP net income and other appropriate operating measures and cash flows from operating activities, investing activities and financing activities when trying to understand an equity REIT s operating performance. FFO is not a GAAP measure or a disclosure required by the Securities and Exchange Commission. Computations of FFO differ among REITs. Thus, an investor should be attentive to differences in FFO computations when comparing FFO among REITs. FFO does not represent cash generated from operating activities in accordance with

Table of Contents

GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to net income, determined in accordance with GAAP, as an indication of our financial performance, or to cash flow from operating activities, determined in accordance with GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions. A reconciliation of net income to basic FFO is presented below (in thousands):

	Quarter Ended June 30			
	2004		2003	
	Dollars	Shares	Dollars	Shares
Net (loss) income	$ (85)	13,166	$ 299	13,085
Additions:				
Depreciation and amortization	3,279		2,925	
Partnership depreciation	9		8	
Deductions:				
Minority depreciation			14	
Preferred dividends	205		205	
Amortization costs	167		156	
Funds from operations available to common shareholders	$ 2,831	13,166	$ 2,857	13,085

	Six Months Ended June 30			
	2004		2003	
	Dollars	Shares	Dollars	Shares
Net (loss) income	$ (418)	13,146	$ 596	13,084
Additions:				
Depreciation and amortization	6,612		5,810	
Partnership depreciation	17		16	
Deductions:				
Minority depreciation	16		29	
Preferred dividends	410		410	
Amortization costs	327		311	
Funds from operations available to common shareholders	$ 5,458	13,146	$ 5,672	13,084

For the three months ended June 30, 2004, FFO available to common shareholders decreased by approximately $26,000 to $2.831 million, compared to $2.857 million for the same period in 2003. For the six months ended June 30, 2004, FFO available to common shareholders decreased by approximately $214,000 to $5.5 million, compared to $5.7 million for the same period in 2003. The decrease is primarily due to increased interest cost and increased collection cost associated with retail tenant bankruptcies, legal expenses, and higher employee benefit costs, partially offset by higher revenues due to the acquisition of a retail property and the delivery of apartment units in two development projects.

Effects of Inflation

Substantially all of the Company s retail leases contain provisions designed to provide the Company with a hedge against inflation. Most of the Company s retail leases contain provisions which enable the Company to receive percentage rentals based on tenant sales in excess of a stated breakpoint and/or provide for periodic increases in minimum rent during the lease term. The majority of the Company s retail leases are for terms of less than ten years, which allows the Company to adjust rentals to changing market conditions. In addition, most retail leases require tenants to pay a contribution towards property operating expenses, thereby reducing the Company s exposure to higher operating costs

Table of Contents

caused by inflation. The Company s apartment leases are written for short terms, generally six to twelve months, and are adjusted according to changing market conditions.

Future Results

This Form 10-Q and other documents prepared and statements made by the Company, may contain certain forward-looking statements that are subject to risk and uncertainty. Investors and potential investors in the Company s securities are cautioned that a number of factors could adversely affect the Company and cause actual results to differ materially from those in the forward-looking statements, including, but not limited to (a) the inability to lease current or future vacant space in the Company s properties; (b) decisions by tenants and anchor tenants who own their space to close stores at the Company s properties; (c) the inability of tenants to pay rent and other expenses; (d) tenant financial difficulties; (e) general economic and world conditions, including threats to the United States homeland from unfriendly factions; (f) decreases in rental rates available from tenants; (g) increases in operating costs at the Company s properties; (h) increases in corporate operating costs, particularly those associated with new regulatory requirements; (i) lack of availability of financing for acquisition, development and rehabilitation of properties by the Company; (j) force majeure as it relates to construction and rehabilitation projects; (k) possible dispositions of mature properties since the Company is continuously engaged in the examination of its various lines of business; (l) increases in interest rates; (m) a general economic downturn resulting in lower retail sales and causing downward pressure on occupancies and rents at retail properties; as well as (n) the adverse tax consequences if the Company were to fail to qualify as a REIT in any taxable year. Except as required under federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update or revise any forward-looking statements in this Form 10-Q, whether as a result of new information, future events, changes in assumptions or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We incorporate by reference the disclosure contained in Item 7a, *Quantitative and Qualitative Disclosures About Market Risk*, of the Company s Form 10-K, for the year ended December 31, 2003. There have been no material changes during the first six months of 2004.

Item 4. Controls and Procedures.

The Company s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures are adequate and effective.

During the quarterly period covered by this report, there were no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II

Other Information

Item 1. Legal Proceedings.

The Company operates in various states in the Gulf South and has subsidiaries and other affiliates domiciled in those states owning titles to the properties in their respective states. There are no pending legal proceedings to which the Company or any subsidiary or affiliate is a party or to which any of its properties is subject which in the opinion of management and its litigation counsel has resulted or will result in any material adverse effect to the financial position of the Company as a whole.

Table of Contents

Item 2. Changes in Securities, Uses of Proceeds and Issuer Purchases of Equity Securities.

Pursuant to a program originally announced in February 1995 as supplemented from time to time, the Company s Board of Directors has authorized the repurchase of up to 2,294,928 shares of its outstanding common stock. The Company repurchased 3,000 shares during the six months ended June 30, 2004. 960,500 shares are still available for repurchase under the plan.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) or Shares that May Yet Be Purchased Under the Plans or Programs
04/01/04 04/30/04				
05/01/04 05/31/04				
06/01/04 06/30/04	3,000	9.14	3,000	
Total	3,000	9.14	3,000	960,500

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

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

(a) Form 10-Q Exhibits

15 Letter regarding Unaudited Interim Financial Information.

31.1 Certification of Sidney W. Lassen, Chief Executive Officer.

31.2 Certification of Charles E. Miller, Jr., Chief Financial Officer.

32.1 Certification of Sidney W. Lassen, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350.

32.2 Certification of Charles E. Miller, Jr., Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K during the quarter ended June 30, 2004:

A Form 8-K was furnished on May 13, 2004 under Item 12, incorporating by reference Sizeler s May 7, 2004 press release, setting forth our 1st Quarter 2004 earnings.

SIGNATURE

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

SIZELER PROPERTY INVESTORS, INC.

(Registrant)

By: /s/ CHARLES E. MILLER, JR.
Charles E. Miller, Jr.

Chief Financial Officer

Date: August 9, 2004