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SUMMIT PROPERTIES INC

Form 10-Q

August 09, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2001

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 1-12792

SUMMIT PROPERTIES INC.

(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

56-1857807
(I.R.S. Employer
Identification No.)

309 E. MOREHEAD STREET
SUITE 200
CHARLOTTE, NORTH CAROLINA
(Address of principal executive offices)

28202
(Zip code)

(704) 334-3000

(Registrant's telephone number, including area code)

N/A

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

Indicate by check 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.

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26,784,750 shares of common stock, par value \$.01 per share, outstanding as of
August 6, 2001

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SUMMIT PROPERTIES INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUMMIT PROPERTIES INC.
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	JUNE 30, 2001	DECEMBER 31, 2000
	-----	-----
ASSETS		
Real estate assets:		
Land and land improvements.....	\$ 177,235	\$ 184,494
Buildings and improvements.....	970,036	1,001,183
Furniture, fixtures and equipment.....	75,378	74,920
	-----	-----
Real estate assets before accumulated depreciation...	1,222,649	1,260,597

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Less: accumulated depreciation.....	(156,965)	(147,437)
	-----	-----
Operating real estate assets.....	1,065,684	1,113,160
Construction in progress.....	232,185	167,462
	-----	-----
Net real estate assets.....	1,297,869	1,280,622
Cash and cash equivalents.....	2,504	3,148
Restricted cash.....	3,393	41,502
Investments in Summit Management Company and real estate joint ventures.....	3,702	736
Deferred financing costs, net of accumulated amortization of \$6,436 and \$5,792 in 2001 and 2000, respectively.....	7,463	7,760
Other assets.....	6,925	6,383
	-----	-----
Total assets.....	\$1,321,856	\$1,340,151
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes payable.....	\$ 757,369	\$ 763,899
Accrued interest payable.....	8,049	7,729
Accounts payable and accrued expenses.....	20,471	20,415
Dividends and distributions payable.....	14,080	13,481
Security deposits and prepaid rents.....	3,980	3,959
	-----	-----
Total liabilities.....	803,949	809,483
	-----	-----
Commitments and contingencies:		
Minority interest of common unitholders in Operating Partnership.....	46,503	55,730
Minority interest of preferred unitholders in Operating Partnership.....	136,261	136,261
Stockholders' equity:		
Preferred stock, \$.01 par value -- 25,000,000 shares authorized, no shares issued and outstanding.....	--	--
Common stock, \$.01 par value -- 100,000,000 shares authorized, 26,736,835 and 26,431,086 shares issued and outstanding in 2001 and 2000, respectively.....	267	264
Additional paid-in capital.....	415,174	415,827
Accumulated deficit.....	(63,231)	(62,775)
Unamortized restricted stock compensation.....	(1,973)	(942)
Employee notes receivable.....	(15,094)	(13,697)
	-----	-----
Total stockholders' equity.....	335,143	338,677
	-----	-----
Total liabilities and stockholders' equity.....	\$1,321,856	\$1,340,151
	=====	=====

See notes to consolidated financial statements.

SUMMIT PROPERTIES INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

THREE MONTHS ENDED
JUNE 30,

SIX MONTH
JUNE

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	2001	2000	2001
Revenues:			
Rental.....	\$ 45,712	\$ 42,362	\$ 90,252
Other property.....	3,432	3,236	6,753
Interest.....	506	664	1,265
Other.....	353	166	506
	-----	-----	-----
Total revenues.....	50,003	46,428	98,776
	-----	-----	-----
Expenses:			
Property operating and maintenance:			
Personnel.....	3,319	3,263	6,678
Advertising and promotion.....	634	641	1,251
Utilities.....	2,198	2,025	4,461
Building repairs and maintenance.....	2,120	2,161	4,066
Real estate taxes and insurance.....	5,348	4,562	10,760
Depreciation.....	10,039	9,384	19,515
Property supervision.....	1,462	1,156	2,892
Other operating.....	789	686	1,487
	-----	-----	-----
	25,909	23,878	51,110
Interest.....	10,185	9,491	20,157
Amortization.....	366	227	709
General and administrative.....	1,140	1,022	2,344
(Income) loss on equity investments:			
Summit Management Company.....	(134)	240	(485)
Real estate joint ventures.....	122	195	39
	-----	-----	-----
Total expenses.....	37,588	35,053	73,874
	-----	-----	-----
Income before gain on sale of real estate assets, impairment loss, minority interest of common unitholders in Operating Partnership and dividends to preferred unitholders in Operating Partnership...			
	12,415	11,375	24,902
Gain on sale of real estate assets.....	10,782	5,446	10,782
Impairment loss on investments in technology companies.....	(1,217)	--	(1,217)
	-----	-----	-----
Income before minority interest of common unitholders in Operating Partnership and dividends to preferred unitholders in Operating Partnership.....			
	21,980	16,821	34,467
Minority interest of common unitholders in Operating Partnership.....	(2,658)	(1,924)	(3,984)
Dividends to preferred unitholders in Operating Partnership.....	(3,105)	(3,105)	(6,210)
	-----	-----	-----
Net income.....	\$ 16,217	\$ 11,792	\$ 24,273
	=====	=====	=====
Per share data:			
Net income -- basic.....	\$ 0.61	\$ 0.45	\$ 0.91
	=====	=====	=====
Net income - diluted.....	\$ 0.60	\$ 0.45	\$ 0.90
	=====	=====	=====
Dividends declared.....	\$ 0.4625	\$ 0.4375	\$ 0.9250
	=====	=====	=====
Weighted average shares -- basic.....	26,686,293	26,224,085	26,630,202
	=====	=====	=====
Weighted average shares -- diluted.....	27,008,902	26,389,051	26,935,990
	=====	=====	=====

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See notes to consolidated financial statements.

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SUMMIT PROPERTIES INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	UNAMORTIZED RESTRICTED STOCK COMPENSATION	EMPLOYEE NOTES RECEIVABLE
Balance, December 31, 2000.....	\$264	\$415,827	\$ (62,775)	\$ (942)	\$ (13,697)
Dividends.....	--	--	(24,729)	--	--
Proceeds from dividend reinvestment and stock purchase plans.....	2	4,089	--	--	--
Conversion of common units to shares.....	--	96	--	--	--
Exercise of stock options.....	--	540	--	--	--
Issuance of restricted stock grants.....	1	1,068	--	(1,769)	--
Amortization of restricted stock grants.....	--	--	--	738	--
Adjustment for minority interest of common unitholders in Operating Partnership.....	--	(6,446)	--	--	--
Issuance of employee notes receivable.....	--	--	--	--	(2,212)
Repayments of employee notes receivable.....	--	--	--	--	815
Net income.....	--	--	24,273	--	--
Balance, June 30, 2001.....	\$267	\$415,174	\$ (63,231)	\$ (1,973)	\$ (15,094)

See notes to consolidated financial statements.

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SUMMIT PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

SIX MONTHS ENDED JUNE 30,	
2001	2000

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Cash flows from operating activities:		
Net income.....	\$ 24,273	\$ 21,329
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest of common unitholders in Operating Partnership.....		
Partnership.....	3,984	3,492
(Income) loss on equity investments.....	(446)	711
Gain on sale of real estate assets.....	(10,782)	(7,886)
Impairment loss on investments in technology companies....	1,217	--
Depreciation and amortization.....	20,959	19,198
Decrease (increase) in restricted cash.....	207	(1,872)
Increase in other assets.....	(1,213)	(1,365)
Increase in accrued interest payable.....	320	70
Decrease in accounts payable and accrued expenses.....	(1,854)	(871)
Increase in security deposits and prepaid rents.....	65	70
	-----	-----
Net cash provided by operating activities.....	36,730	32,876
	-----	-----
Cash flows from investing activities:		
Construction of real estate assets and land acquisitions, net of payables.....		
.....	(53,744)	(72,243)
Proceeds from sale of communities.....	57,385	46,349
Capitalized interest.....	(6,363)	(4,643)
Investment in real estate joint venture.....	(4,075)	--
Recurring capital expenditures, net of payables.....	(2,563)	(2,515)
Non-recurring capital expenditures.....	(3,699)	(1,338)
	-----	-----
Net cash used in investing activities.....	(13,059)	(34,390)
	-----	-----
Cash flows from financing activities:		
Net repayments on line of credit.....	(55,062)	(9)
Net repayments on unsecured bonds.....	--	(166)
Net borrowings on unsecured medium-term notes.....	59,537	--
Proceeds from issuance of mortgage debt.....	--	47,924
Repayments of mortgage debt.....	(2,737)	(5,893)
Repayments of tax exempt bonds.....	(560)	(745)
Net proceeds from dividend reinvestment and stock purchase plans and exercise of stock options.....	3,931	2,247
Dividends and distributions to unitholders.....	(28,027)	(26,408)
Repurchase of common stock.....	--	(6,947)
Acquisition of minority interest.....	--	(1,761)
Repayments of employee notes receivable.....	815	531
Increase in employee notes receivable.....	(2,212)	(8,438)
	-----	-----
Net cash (used in) provided by financing activities.....	(24,315)	335
	-----	-----
Net decrease in cash and cash equivalents.....	(644)	(1,179)
Cash and cash equivalents, beginning of year.....	3,148	4,130
	-----	-----
Cash and cash equivalents, end of period.....	\$ 2,504	\$ 2,951
	=====	=====
Supplemental disclosure of cash flow information -- Cash paid for interest, net of capitalized interest.....		
	\$ 19,837	\$ 18,385
	=====	=====

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Unless the context otherwise requires, all references to "we", "our" or "us" in this report refer collectively to Summit Properties Inc., a Maryland corporation ("Summit"), and its subsidiaries, including Summit Properties Partnership, L.P., a Delaware limited partnership (the "Operating Partnership"), considered as a single enterprise. Summit is the sole general partner of the Operating Partnership.

1. BASIS OF PRESENTATION

We have prepared the accompanying unaudited financial statements in accordance with generally accepted accounting principles for interim financial information and in conformity with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. We have included all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation. The results of operations for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the full year. You should read our December 31, 2000 audited financial statements and notes included in our Annual Report on Form 10-K in conjunction with these interim statements.

We conduct substantially all of our business through the Operating Partnership. Summit is the sole general partner and majority owner of the Operating Partnership.

RECENTLY ISSUED ACCOUNTING STANDARDS -- On June 29, 2001, the Financial Accounting Standards Board approved Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 will require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and that the use of the pooling-of-interest method is no longer allowed. SFAS No. 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on an annual basis. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. We are evaluating the impact of the adoption of these standards and have not yet determined the effect of adoption on our financial position and results of operations.

EARNINGS PER SHARE -- The only difference between "basic" and "diluted" weighted average shares is the dilutive effect of our outstanding stock options. There were 322,609 and 305,788 shares added to weighted average shares outstanding for the three and six months ended June 30, 2001, respectively, and 164,966 and 118,843 shares added to weighted average shares outstanding for the three and six months ended June 30, 2000, respectively.

RECLASSIFICATIONS -- Certain reclassifications have been made to the 2000 financial statements to conform to the 2001 presentation.

2. REAL ESTATE JOINT VENTURES

We own a 25% interest in a joint venture named Station Hill, LLC, in which we and Hollow Creek, LLC, a subsidiary of a major financial services company, are members. In exchange for our interest in Station Hill, we contributed one phase of each of two communities. We sold three communities and one phase of each of the two communities contributed to Station Hill to Hollow Creek and Hollow Creek

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method of accounting and, therefore, its operating results are presented in "(Income) loss on equity investments: Real estate joint ventures" in our consolidated statements of earnings. The construction costs are being funded through a separate loan to the joint venture from an unrelated third party equal to 100% of the construction costs. During the construction period, rather than equity contributions to the joint venture, we have, under certain circumstances, subsequent to demand by the third party lender, agreed to make contributions which would reduce the construction loan by an amount not to exceed 25% of the total construction loan amount. Any such contribution would be deemed to be all, or a portion, of the equity we would be required to contribute to the joint venture at the end of the construction and lease-up period. We have the option to purchase our joint venture partner's interest in the joint venture for a period of six months after the project becomes stabilized. The project had not reached stabilization as of June 30, 2001. If we do not exercise our option with respect to the joint venture, we will be required to make a capital contribution of 25% of the joint venture's total construction loan amount.

On May 25, 2001, we acquired a 29.78% interest in a joint venture that owns substantially all of the interest in a limited liability company that will develop an apartment community in Miami, Florida. Our equity contribution was \$4.2 million. The community will consist of 323 apartment homes and 17,795 square feet of office/retail space. The construction costs are being funded through the equity which the joint venture contributed to the limited liability company and by a loan to that company from an unrelated third party. In the event that construction costs exceed the construction loan amount, we have agreed to lend to the joint venture, which will in turn advance to the limited liability company, the amount required to fund such cost overruns. This loan would accrue interest at the rate of 11% per year. Upon completion of construction, the joint venture will pay, or refinance, the construction loan. In the event the limited liability company defaults on the construction loan, we have the right, under certain circumstances, to cure the defaults, keep the loan in

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SUMMIT PROPERTIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

place and complete construction of the community. The joint venture has also acquired an adjacent piece of land. We are serving as the managing member of the joint venture, and Summit Management Company will be the property management company for the project. This project is accounted for on the equity method of accounting.

3. COMMUNITY DISPOSITIONS

On June 1, 2001, we sold an apartment community located in West Palm Beach, Florida, formerly known as Summit Palm Lake (304 apartment homes) for \$20.0 million. The disposition of Summit Palm Lake resulted in the recognition of a gain on sale of \$2.4 million. The net proceeds of \$19.4 million were used to reduce amounts outstanding under our unsecured credit facility.

On June 27, 2001, we sold two apartment communities, both located in Charlotte, North Carolina, formerly known as Summit Arbors and Summit Radbourne (an aggregate of 345 apartment homes) for \$26.3 million. The disposition of these communities resulted in the recognition of an aggregate gain on sale of \$8.4 million. The purchaser of these two communities assumed \$8.5 million in mortgages and exchanged 741,148 common units valued at \$17.6 million as consideration in the transaction.

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4. NOTES PAYABLE

We have a syndicated unsecured line of credit ("credit facility") in the amount of \$225.0 million. The credit facility provides funds for new development, acquisitions and general working capital purposes. Loans under the credit facility bear interest at LIBOR plus 100 basis points. The spread component of the aggregate interest rate will be reduced in the event of an upgrade of our unsecured credit rating. The credit facility is repayable monthly on an interest only basis with principal due at maturity. The credit facility's initial three-year term was scheduled to expire on September 26, 2003. On July 6, 2001, we closed on a one-year extension option, subject to the satisfaction of certain conditions, under this credit facility. The new maturity date is September 26, 2004, and all other terms and covenants of the credit facility remain unchanged.

On April 20, 2000, we commenced a new program for the sale by the Operating Partnership of up to \$250.0 million aggregate principal amount of medium-term notes due nine months or more from the date of issuance. During the six months ended June 30, 2001, the Operating Partnership issued medium-term notes with an aggregate principal amount of \$60.0 million in connection with the new MTN program, including (a) \$25.0 million of notes which are due on May 9, 2006 and bear interest at 7.04% per year and (b) \$35.0 million of notes which are due on May 9, 2011 and bear interest at 7.703% per year. We had medium-term notes with an aggregate principal amount of \$112.0 million outstanding in connection with the new MTN program at June 30, 2001.

On May 29, 1998, we established a program for the sale by the Operating Partnership of up to \$95.0 million aggregate principal amount of medium-term notes due nine months or more from the date of issuance. We had medium-term notes with an aggregate principal amount of \$55.0 million outstanding in connection with this MTN program at June 30, 2001. On July 30, 2001, one of the medium-term notes in the principal amount of \$30.0 million matured and was repaid. As a result of the commencement of the \$250.0 million MTN program, we cannot issue any additional notes under the \$95.0 million MTN program.

5. DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to market risk, such as changes in interest rates. To manage the volatility relating to interest rate risk, we may enter into interest rate hedging arrangements from time to time. We do not utilize derivative financial instruments for trading or speculative purposes.

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SUMMIT PROPERTIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

On January 1, 2001, we adopted Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. FAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The cumulative effect of adopting FAS 133 was not material to our financial statements.

At June 30, 2001, we had one interest rate swap with a notional amount of \$30.0 million, relating to \$30.0 million of 6.625% fixed rate notes issued under our MTN program. Under the interest rate swap agreement, through the maturity date of December 15, 2003, (a) we have agreed to pay to the counterparty the interest on a \$30.0 million notional amount at a floating interest rate of three-month

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LIBOR plus 11 basis points, and (b) the counterparty has agreed to pay to us the interest on the same notional amount at the fixed rate. The floating rate at June 30, 2001 was 4.00%. The fair value of the interest rate swap was \$1.1 million at June 30, 2001. The swap has been designated as a fair value hedge of the underlying fixed rate debt obligation and has been recorded as a reduction of the related debt instrument. We assume no ineffectiveness as the interest rate swap meets the short-cut method conditions required under FAS 133 for fair value hedges of debt instruments. Accordingly, no gains or losses were recorded in income relative to our underlying debt and interest rate swap.

6. RESTRICTED STOCK

During the six months ended June 30, 2001, we granted 94,818 shares of restricted stock valued at \$1.2 million pursuant to our Performance Stock Award Plan. One half of these shares vested on the date of grant, with the remaining shares vesting in two equal annual installments beginning on January 1, 2002. The value of the shares has been recorded as unamortized restricted stock compensation and is shown as a separate component of stockholders' equity in the accompanying balance sheet.

During the six months ended June 30, 2001 and 2000, we granted 21,018 and 72,805 shares, respectively, of restricted stock to employees under our 1994 Stock Option and Incentive Plan. The market value of the restricted stock grants awarded during these six months in 2001 and 2000 totaled \$516,000 and \$1.3 million, respectively, which has been recorded as unamortized restricted stock compensation and is shown as a separate component of stockholders' equity in the accompanying balance sheet. Unearned compensation related to these restricted stock grants is being amortized to expense over the vesting period which ranges from three to five years.

7. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash investing and financing activities for the six months ended June 30, 2001 and 2000 are as follows:

- A. We accrued dividends and distributions payable in the amounts of \$14.1 million and \$13.3 million at June 30, 2001 and 2000, respectively.
- B. We issued 21,018 and 72,805 shares of restricted stock valued at \$516,000 and \$1.3 million during the six months ended June 30, 2001 and 2000, respectively.
- C. We issued 94,818 shares of restricted stock valued at \$1.2 million during the six months ended June 30, 2001 in connection with our Performance Stock Award Plan. There were no such issuances of restricted stock in connection with the plan during the six months ended June 30, 2000.
- D. We issued 4,012 and 35,045 shares of common stock in exchange for 4,012 and 35,045 common units of limited partnership interest in the Operating Partnership valued at \$96,000 and \$676,000 during the six months ended June 30, 2001 and 2000, respectively.

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SUMMIT PROPERTIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

- E. The Operating Partnership issued 66,376 common units at a price of \$28.625 per unit during the six months ended June 30, 2001 in connection

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with the purchase of a building and a parcel of land.

F. As partial consideration for the purchase of the former Summit Radbourne and Summit Arbors communities on June 27, 2001, the purchaser assumed mortgages with an aggregate balance of \$8.5 million at the date of sale, and exchanged 741,148 common units valued at \$17.6 million.

8. MINORITY INTEREST

Minority interest of common unitholders consists of the following at June 30, 2001 and December 31, 2000 (in thousands):

	2001	2000
	-----	-----
Minority interest of common unitholders in Operating Partnership.....	\$46,963	\$56,190
Minority interest in one operating community.....	(460)	(460)
	-----	-----
	\$46,503	\$55,730
	=====	=====

As of June 30, 2001, the Operating Partnership had 30,441,626 common units of limited partnership interest outstanding of which 26,736,835, or 87.8%, were owned by Summit and 3,704,791, or 12.2%, were owned by other partners, including certain of our officers and directors.

Proceeds from the issuance of shares of our common stock are contributed to the Operating Partnership for an equivalent number of common units. Total common stock issued, and the proceeds contributed to the Operating Partnership for an equivalent number of common units, was 216,000 and 129,000 shares valued at \$4.7 million (\$21.94 per share average) and \$2.2 million (\$17.44 per share average) for the six months ended June 30, 2001 and 2000, respectively. No individual transaction significantly changed our ownership percentage in the Operating Partnership, which was 87.8% and 85.9% as of June 30, 2001 and 2000, respectively.

Under certain circumstances, as required by the holders of common units, we may issue shares of common stock in exchange for common units owned by other partners on a one-for-one basis (subject to adjustment) or may purchase common units for cash. Shares of common stock exchanged for common units are valued based upon the market price per share of our common stock at the date of the exchange. During the six month period ended June 30, 2001, 4,012 common units valued a \$96,000 were exchanged for shares of common stock. During the six month period ended June 30, 2000, 35,045 common units valued at \$676,000 were exchanged for shares of common stock and 93,945 common units were exchanged for cash of \$1.8 million.

We issued 66,376 common units at a price of \$28.625 per unit as partial consideration for the purchase of a building and a parcel of land during the six months ended June 30, 2001.

On June 27, 2001, the purchaser of the former Summit Radbourne and Summit Arbors communities exchanged 741,148 common units valued at \$17.6 million as partial consideration for such purchase.

9. COMMITMENTS AND CONTINGENCIES

The estimated cost to complete eight development projects currently under

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construction was \$74.8 million at June 30, 2001. Anticipated construction completion dates of the projects range from the third quarter of 2001 to the first quarter of 2003.

On January 19, 2000, we entered into a Real Estate Purchase Agreement with a third-party real estate developer. Under the terms of the agreement, we have agreed to purchase a "Class A" mixed-use community, which will be called Summit Brickell and will be located in Miami, Florida. We expect to close on the purchase of Summit Brickell during the second half of 2002 following its completion and achievement of 85%

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SUMMIT PROPERTIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

occupancy. The final purchase price will be determined based on actual construction costs plus a bonus to the developer based on the capitalized income of the property at the time of purchase. The purchase price is expected to range from \$50.5 million to \$60.0 million. The purchase of Summit Brickell is subject to customary closing conditions. We issued a letter of credit in the amount of \$13.0 million, which serves as a credit enhancement to the developer's construction loan. In the event that the letter of credit is drawn upon, we will be treated as having issued a loan to the developer in the amount of such draw. Any such loan will accrue interest at a rate of 18% per year.

We have an employment agreement with one of our former executive officers who resigned from such executive position but will remain as an employee, and has agreed to provide various services to us from time to time over the next ten years. The employment agreement requires that we pay this former officer a base salary aggregating up to \$2.1 million over the period from July 1, 2001 to December 31, 2011. Either party can terminate the employment agreement, effective 20 business days after written notice is given. The full base salary amount shall be payable through 2011 whether or not the agreement is terminated earlier in accordance with its terms.

10. BUSINESS SEGMENTS

We are an established leader in the operation, development and acquisition of "Class A" luxury apartments located in the southeastern, southwestern and mid-atlantic United States. We develop apartments solely for our own use and do not perform development activities for third parties. We evaluate each community's performance individually. However, because of the similar economic characteristics and services provided to our residents at each community, our communities have been aggregated into one reportable segment, apartment operations. This segment generated 98.2% and 97.8% of our total revenues for the six months ended June 30, 2001 and 2000, respectively.

11. PREFERRED UNITS

As of June 30, 2001, the Operating Partnership had outstanding 3.4 million preferred units of limited partnership interest designated as 8.95% Series B Cumulative Redeemable Perpetual Preferred Units. These preferred units are redeemable by the Operating Partnership on or after April 29, 2004 for cash, or at our option, shares of our 8.95% Series B Cumulative Redeemable Perpetual Preferred Stock, or a combination of cash and stock. Holders of the Series B preferred units have the right to exchange these preferred units for shares of our Series B preferred stock on a one-for-one basis, subject to adjustment: (a) on or after April 29, 2009, (b) if full quarterly distributions are not made for six quarters, or (c) upon the occurrence of specified events related to the

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treatment of the Operating Partnership or the preferred units for federal income tax purposes. Distributions on the Series B preferred units are cumulative from the date of original issuance and are payable quarterly at the rate of 8.95% per year of the \$25.00 original capital contribution. We made distributions to the holders of the Series B preferred units in the aggregate amount of \$3.8 million during each of the six month periods ended June 30, 2001 and 2000.

As of June 30, 2001, the Operating Partnership had outstanding 2.2 million preferred units of limited partnership interest designated as 8.75% Series C Cumulative Redeemable Perpetual Preferred Units. The preferred units are redeemable by the Operating Partnership on or after September 3, 2004 for cash. Holders of the Series C preferred units have the right to exchange these preferred units for shares of our Series C preferred stock on a one-for-one basis, subject to adjustment: (a) on or after September 3, 2009, (b) if full quarterly distributions are not made for six quarters, (c) upon the occurrence of specified events related to the treatment of the Operating Partnership or the preferred units for federal income tax purposes, or (d) if the holdings in the Operating Partnership of the Series C unitholder exceed 18% of the total profits of or capital interest in the Operating Partnership for a taxable year. Distributions on the Series C preferred units are cumulative from the date of original issuance and are payable quarterly at the rate of 8.75% per year of the

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SUMMIT PROPERTIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

\$25.00 original capital contribution. We made distributions to the holder of the Series C preferred units in the aggregate amount of \$2.4 million during each of the six month periods ended June 30, 2001 and 2000.

12. COMMON STOCK REPURCHASE PROGRAM

On March 12, 2000, our Board of Directors authorized a common stock repurchase program pursuant to which we are authorized to purchase up to an aggregate of \$25.0 million of currently issued and outstanding shares of our common stock. All repurchases have been, and will be, made on the open market at prevailing prices or in privately negotiated transactions. This authority may be exercised from time to time and in such amounts as market conditions warrant. We did not repurchase any shares of our common stock during the six months ended June 30, 2001. During the year ended December 31, 2000, we repurchased 279,400 shares of our common stock under the common stock repurchase program for an aggregate purchase price, including commissions, of \$5.5 million, or an average price of \$19.80 per share.

During 2000, we completed a common stock repurchase program pursuant to which we were authorized to purchase up to an aggregate of \$50.0 million of our common stock. The total number of shares of our common stock repurchased under this program was 2.5 million shares for an aggregate purchase price, including commissions, of \$50.0 million, or an average price of \$19.63 per share.

13. IMPAIRMENT LOSS

Management considers events and circumstances that may indicate impairment of an investment, including operating performance and cash flow projections. Management determined during the three months ended June 30, 2001 that our investments in Broadband Now, Inc. and Yieldstar Technology LLC were impaired and that such impairment was other than temporary. As a result, we recorded an impairment loss during the period in the amount of \$1.2 million, which represents our entire investments in these two technology companies. We have no

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other technology company investments.

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2001, we sold an apartment community located in Palm Harbour, Florida formerly known as Summit Lofts (200 apartment homes) and one parcel of land located in Richmond, Virginia for \$16.1 million in the aggregate. The disposition of this community and parcel of land resulted in the recognition of a gain on sale of \$2.9 million in the aggregate. The net proceeds were used to repay amounts outstanding under our unsecured credit facility.

Subsequent to June 30, 2001, Station Hill sold an apartment community located in Tampa, Florida formerly known as Summit Station (240 apartment homes) for \$11.9 million. The disposition of Summit Station resulted in the recognition of a gain on sale by Station Hill of \$1.1 million. The purchaser of Summit Station assumed a mortgage of \$8.3 million and paid the balance of the purchase price in cash.

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements relating to the operating performance of fully stabilized communities, the development, acquisition or disposition of properties, anticipated construction commencement and completion and lease-up dates, and estimated development costs. You can identify forward-looking statements by the use of the words "believe," "expect," "anticipate," "intend," "estimate," "assume" and other similar expressions which predict or indicate future events and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to:

- economic conditions generally and the real estate market specifically, including changes in occupancy rates and rents;
- legislative/regulatory changes, including changes to laws governing the taxation of real estate investment trusts, ("REITS");
- availability of capital;
- changes in interest rates;
- uncertainties associated with our development activities, including the failure to obtain zoning and other approvals and increases in construction costs;
- the failure of acquisitions to yield expected results;
- the failure to sell communities marketed for sale, or to sell communities in a timely manner or on favorable terms;
- construction delays due to the unavailability of materials, weather conditions or other delays;

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- competition, which could limit our ability to secure attractive investment opportunities, lease apartment homes or increase or maintain rents;
- supply and demand for apartment communities in our current and proposed market areas, especially our core markets described below;
- changes in generally accepted accounting principles, or policies and guidelines applicable to REITs; and
- those factors discussed in the section "Certain Factors Affecting the Performance of Development Communities," on page 25 of this report.

You should consider these risks and uncertainties when evaluating forward-looking statements and you should not place undue reliance on such statements. You should read the following discussion in conjunction with our consolidated financial statements and notes, which accompany this report.

Summit is a real estate operating company that has elected REIT status and focuses on the operation, development and acquisition of "Class A" luxury apartment communities located in the southeastern, southwestern and mid-atlantic United States. We focus our efforts in seven core markets with particular emphasis on the high growth areas of Washington, D.C., Southeast Florida and Atlanta. Our other core markets are Dallas and Austin, Texas and Raleigh and Charlotte, North Carolina. We have experienced weakness in our Atlanta, Georgia and Austin, Texas markets due to local economic conditions, which have negatively impacted occupancy rates and market rents. We anticipate that these conditions will continue throughout the year, particularly in Austin.

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HISTORICAL RESULTS OF OPERATIONS

Our net income is generated primarily from operations of our apartment communities. The changes in operating results from period to period reflect changes in existing community performance and changes in the number of apartment homes due to development, acquisition, or disposition of communities. Where appropriate, comparisons are made on a "fully stabilized communities," "acquisition communities," "stabilized development communities," "communities in lease-up" and "disposition communities" basis in order to adjust for changes in the number of apartment homes. We consider a community to be "stabilized" when it has attained a physical occupancy level of at least 93%. A community that we have acquired is deemed "fully stabilized" when we have owned it for one year or more as of the beginning of the current year. A community that we have developed is deemed "fully stabilized" when stabilized for the two prior years as of the beginning of the current year. A community is deemed to be a "stabilized development" community when stabilized as of the beginning of the current year but not the entire two prior years. A community's average physical occupancy is defined as the number of apartment homes occupied divided by the total number of apartment homes contained in the communities, expressed as a percentage. Average physical occupancy has been calculated using the average of the occupancy that existed on Sunday during each week of the period. Average monthly rental revenue presented represents the average monthly net rental revenue per occupied apartment home. Our methodology for calculating average physical occupancy and average monthly rental revenue may differ from the methodology used by other apartment companies and, accordingly, may not be comparable to other apartment companies. All communities information is presented before real estate depreciation and amortization expense.

Results of Operations for the Three and Six Months Ended June 30, 2001 and 2000

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For the three and six months ended June 30, 2001, income before gain on sale of real estate assets, impairment loss on investments in technology companies, minority interest of common unitholders in the Operating Partnership and dividends to preferred unitholders in the Operating Partnership increased \$1.0 million to \$12.4 million and \$1.8 million to \$24.9 million from the three and six month periods ended June 30, 2001 and 2000, respectively, primarily due to increased property operating income generated by our portfolio of communities, offset by increased interest costs primarily as a result of increased average indebtedness outstanding.

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OPERATING PERFORMANCE OF OUR PORTFOLIO OF COMMUNITIES

The operating performance of our communities for the three and six months ended June 30, 2001 and 2000 is summarized below (dollars in thousands):

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS ENDED JUNE 30,		
	2001	2000	% CHANGE	2001	2000	% CH
Property revenues:						
Fully stabilized communities.....	\$29,873	\$29,116	2.6%	\$59,521	\$57,525	3
Acquisition communities.....	1,298	--	100.0%	2,568	--	100
Stabilized development communities.....	13,761	11,692	17.7%	27,021	22,109	22
Communities in lease-up.....	3,700	942	292.8%	6,611	1,924	243
Communities sold.....	512	3,848	-86.7%	1,284	8,159	-84
Total property revenues.....	49,144	45,598	7.8%	97,005	89,717	8
Property operating and maintenance expense:						
Fully stabilized communities.....	9,888	9,624	2.7%	19,680	18,855	4
Acquisition communities.....	436	--	100.0%	874	--	100
Stabilized development communities.....	4,087	3,053	33.9%	8,258	6,155	34
Communities in lease-up.....	1,284	513	150.3%	2,347	1,028	128
Communities sold.....	175	1,304	-86.6%	436	2,699	-83
Total property operating and maintenance expense.....	15,870	14,494	9.5%	31,595	28,737	9
Property operating income.....	\$33,274	\$31,104	7.0%	\$65,410	\$60,980	7
Apartment homes, end of period.....	18,279	18,365	1.4%	18,279	18,365	1

A summary of our apartment homes (excluding joint ventures) for the six months ended June 30, 2001 and 2000 is as follows:

2001 2000

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Apartment homes at January 1 of the year.....	18,928	17,673
Developments which began rental operations during the period.....	--	1,172
Sale of apartment homes.....	(649)	(480)
	-----	-----
Apartment homes at June 30 of the year.....	18,279	18,365
	=====	=====

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OPERATING PERFORMANCE OF FULLY STABILIZED COMMUNITIES

The operating performance of our communities stabilized prior to January 1, 1999 is summarized below (dollars in thousands except average monthly rental revenue):

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS ENDED JUNE 30,		
	2001	2000	% CHANGE	2001	2000	% CH
	-----	-----	-----	-----	-----	-----
Property revenues:						
Rental.....	\$27,799	\$27,122	2.5%	\$55,503	\$53,653	3
Other.....	2,074	1,994	4.0%	4,018	3,872	3
	-----	-----		-----	-----	
Total property revenues.....	29,873	29,116	2.6%	59,521	57,525	3
	-----	-----		-----	-----	
Property operating and maintenance expense:						
Personnel.....	1,995	2,002	-0.3%	4,016	3,685	9
Advertising and promotion.....	328	398	-17.6%	663	760	-12
Utilities.....	1,289	1,244	3.6%	2,628	2,509	4
Building repairs and maintenance.....	1,403	1,443	-2.8%	2,665	2,708	-1
Real estate taxes and insurance.....	3,518	3,353	4.9%	7,058	6,700	5
Property supervision.....	835	744	12.2%	1,660	1,604	3
Other operating expense.....	520	440	18.2%	990	889	11
	-----	-----		-----	-----	
Total property operating and maintenance expense.....	9,888	9,624	2.7%	19,680	18,855	4
	-----	-----		-----	-----	
Property operating income.....	\$19,985	\$19,492	2.5%	\$39,841	\$38,670	3
	=====	=====		=====	=====	
Average physical occupancy.....	93.2%	95.1%	-2.0%	93.4%	94.2%	-0
	=====	=====		=====	=====	
Average monthly rental revenue.....	\$ 921	\$ 886	4.0%	\$ 920	\$ 885	4
	=====	=====		=====	=====	
Number of apartment homes (1).....	11,002	11,002		11,002	11,002	
	=====	=====		=====	=====	
Number of apartment communities.....	39	39		39	39	
	=====	=====		=====	=====	

(1) Includes the former Summit Arbors and Summit Radbourne communities.

The increase in property revenue from fully stabilized communities was primarily the result of increases in average rental rates as well as increased revenues

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from sources other than rental revenues, such as water sub-meter and cable revenues. The higher revenues were primarily generated in our Southeast Florida and Washington, D.C. markets. The increased revenues were offset by an increase of 4.4% in property operating expenses, primarily property taxes and personnel. As a percentage of total property revenue, total property operating and maintenance expenses remained stable at 33.1% for the three months ended June 30, 2001 and 2000, respectively, and increased to 33.1% for the six months ended June 30, 2001 from 32.8% for the six months ended June 30, 2000.

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OPERATING PERFORMANCE OF ACQUISITION COMMUNITIES

Acquisition communities for the three and six months ended June 30, 2001 consist of Summit Sweetwater and Summit Shiloh, both located in Atlanta, Georgia, representing a total of 490 apartment homes, in each of which we acquired our joint venture partner's 51% interest on August 1, 2000. The operations of these two communities for the three and six months ended June 30, 2001 are summarized as follows (dollars in thousands except average monthly rental revenue):

	THREE MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2001
	-----	-----
Property revenues:		
Rental.....	\$1,208	\$2,392
Other.....	90	176
	-----	-----
Total property revenues.....	1,298	2,568
Property operating and maintenance expense.....	436	874
	-----	-----
Property operating income.....	\$ 862	\$1,694
	=====	=====
Average physical occupancy.....	91.7%	92.4%
	=====	=====
Average monthly rental revenue.....	\$ 903	\$ 904
	=====	=====
Number of apartment homes.....	490	490
	=====	=====

OPERATING PERFORMANCE OF STABILIZED DEVELOPMENT COMMUNITIES

We had fifteen development communities (Summit Ballantyne, Summit Sedgebrook, Summit Governor's Village, Summit Lake, Summit Russett, Summit Westwood, Summit New Albany, Summit Fair Lakes, Summit Doral, Summit Largo, Summit Hunter's Creek, Summit Ashburn Farm, Summit Deer Creek, Summit Fairview and Reunion Park by Summit) which were stabilized during the entire six months ended June 30, 2001, but were stabilized subsequent to January 1, 1999. Summit Fairview is an existing community which underwent major renovations during 1999 and 2000. Its operating results are included in results of stabilized development communities as it reached stabilization after renovation subsequent to January 1, 1999. The operating performance of these fifteen communities for the three and six months ended June 30, 2001 and 2000 is summarized below (dollars in thousands except average monthly rental revenue):

THREE MONTHS ENDED SIX MONTHS ENDED

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	JUNE 30,		JUNE 30,	
	2001	2000	2001	2000
Property revenues:				
Rental.....	\$12,800	\$10,792	\$25,163	\$20,540
Other.....	961	900	1,858	1,568
Total property revenues.....	13,761	11,692	27,021	22,109
Property operating and maintenance expense.....	4,087	3,053	8,258	6,155
Property operating income.....	\$ 9,674	\$ 8,639	\$18,763	\$15,953
Average physical occupancy.....	95.2%	83.3%	94.1%	82.9%
Average monthly rental revenue.....	\$ 966	\$ 884	\$ 966	\$ 849
Number of apartment homes.....	4,668	4,668	4,668	4,668

The unleveraged yield on investment for the stabilized development communities, defined as property operating income for the three and six months ended June 30, 2001 on an annualized basis over total development cost, was 11.1% and 10.7%, respectively.

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OPERATING PERFORMANCE OF COMMUNITIES IN LEASE-UP

We had seven communities in lease-up during the six months ended June 30, 2001. Six of the seven communities in lease-up are new developments and one of the communities in lease-up, Summit Lenox, is an existing community that underwent major renovations during 1999 and 2000. A community in lease-up is defined as one that has commenced rental operations but was not stabilized as of the beginning of the current year. A summary of the six new development communities in lease-up as of June 30, 2001 is as follows (dollars in thousands):

COMMUNITY	NUMBER OF APARTMENT HOMES	TOTAL ACTUAL/ ESTIMATED COST	ACTUAL/ ANTICIPATED CONSTRUCTION COMPLETION	ACTUAL/ ANTICIPATED STABILIZATION
Summit Russett II -- Laurel, MD.....	112	\$ 10,700	Q4 2000	Q2 2001
Summit Grandview -- Charlotte, NC.....	266	51,700	Q4 2000	Q4 2001
Summit Deerfield -- Cincinnati, OH (1) (2).....	498	44,500	Q3 2001	Q2 2002
Summit Overlook -- Raleigh, NC (2).....	320	25,500	Q3 2001	Q1 2002
Summit Crest -- Raleigh, NC (2).....	438	30,700	Q3 2001	Q2 2002
Summit Peachtree City -- Atlanta, GA (2).....	399	31,500	Q3 2001	Q4 2002
	2,033	\$194,600		

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- (1) Summit Deerfield is under contract for sale, expected during 2001, as part of our strategy to exit the midwest markets. We do not expect to realize a loss on sale of Summit Deerfield, which is subject to customary closing conditions.
- (2) The related assets of these properties are included in the "Construction in progress" category at June 30, 2001.

In addition to the communities listed in the table above, Summit Lenox in Atlanta, Georgia is an existing community that underwent major renovations during 1999 and 2000. The renovations included upgrades of the interior of the apartment homes (new cabinets, fixtures and other interior upgrades), upgrades to the parking lots and landscaping, as well as exterior painting of buildings. The renovations required certain apartment homes to be unavailable for rental over the course of the project. The operations of Summit Lenox are included in results of our lease-up communities due to the renovation work. The renovation work at Summit Lenox was complete at June 30, 2001, but the community had not yet reached stabilization after renovation. Summit Lenox was 89.6% occupied at June 30, 2001.

The operating performance of our lease-up communities for the three and six months ended June 30, 2001 and 2000 is summarized below (dollars in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Property revenues:				
Rental.....	\$3,429	\$ 875	\$6,004	\$1,816
Other.....	271	67	607	108
	-----	-----	-----	-----
Total property revenues.....	3,700	942	6,611	1,924
Property operating and maintenance expense.....	1,284	513	2,347	1,028
	-----	-----	-----	-----
Property operating income.....	\$2,416	\$ 429	\$4,264	\$ 896
	=====	=====	=====	=====
Number of apartment homes.....	2,464	2,464	2,464	2,464
	=====	=====	=====	=====

OPERATING PERFORMANCE OF DISPOSITION COMMUNITIES

We sold the former Summit Palm Lake community on June 1, 2001 (304 apartment units). The information in the table below represents operating results for the three and six months ended June 30, 2001 for the former Summit Palm Lake. The information in the table below represents operating results for the three and six months ended June 30, 2000 for the former Summit Palm Lake sold during 2001, as well as for the following communities sold during 2000 (referred to in this report using former community names): Summit Creekside, Summit Eastchester, Summit Sherwood, Summit Blue Ash, Summit Park, Summit River Crossing and Summit Village (dollars in thousands):

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	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Property revenues:				
Rental.....	\$475	\$3,573	\$1,191	\$7,595
Other.....	37	275	93	564
Total property revenues.....	512	3,848	1,284	8,159
Property operating and maintenance expense...	175	1,304	436	2,699
Property operating income.....	\$337	\$2,544	\$ 848	5,460
Number of apartment homes.....	304	1,980	304	1,980

OPERATING PERFORMANCE OF SUMMIT MANAGEMENT COMPANY

The operating performance of Summit Management Company and its wholly-owned subsidiary, Summit Apartment Builders, Inc., for the three and six months ended June 30, 2001 and 2000 is summarized below (in thousands):

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS ENDED JUNE 30,		
	2001	2000	% CHANGE	2001	2000	% CHA
Revenues:						
Management fees charged to Operating Partnership.....	\$ 1,656	\$ 1,347	22.9%	\$ 3,592	\$ 2,815	27.
Third party management fee revenue.....	205	272	-24.6%	440	550	-20.
Construction revenue.....	799	782	2.2%	1,554	1,590	-2.
Gain on sale of real estate assets.....	--	--	0.0%	--	238	-100.
Other revenue.....	177	63	181.0%	251	135	85.
Total revenue.....	2,837	2,464	15.1%	5,837	5,328	9.
Expenses:						
Operating.....	2,473	2,468	0.2%	4,893	5,039	-2.
Depreciation.....	80	86	-7.0%	160	172	-7.
Amortization.....	75	75	0.0%	149	151	-1.
Interest.....	75	75	0.0%	150	528	-71.
Total expenses.....	2,703	2,704	0.0%	5,352	5,890	-9.
Net income (loss).....	\$ 134	\$ (240)	155.8%	\$ 485	\$ (562)	186.

The increase in management fees charged to the Operating Partnership for the three and six-month periods in 2001 was primarily the result of 7.8% and 8.1% increases in property revenues at our communities for those periods over the previous year, as well as an increase in fees earned from managing our communities in lease-up. The decrease in operating expenses during the six-month period was a result of a decrease in the number of management personnel at

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Summit Management Company in 2001 as compared to 2000. In addition,

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interest expense for the six month period decreased due to an inter-company loan, which was repaid during 2000.

Property management revenues included property management fees from third parties of \$205,000 and \$440,000 for the three and six months ended June 30, 2001 and \$272,000 and \$550,000 for the same periods in 2000. Property management fees from third parties as a percentage of total property management revenues were 11.0% and 10.9% for the three and six months ended June 30, 2001 and 16.8% and 16.3% for the same periods in 2000. We expect third party management revenues as a percentage of total property management revenues to continue to decline.

All of the construction revenue during the six-month periods ended June 30, 2001 and 2000 was from contracts with Summit.

OTHER INCOME AND EXPENSES

Interest expense increased by \$694,000 and \$1.7 million, or 7.3% and 9.2% for the three and six months ended June 30, 2001 compared with the same periods in 2000. This increase was primarily the result of an increase in our average indebtedness outstanding, which increased by \$78.0 million, or 11.5%, for the three-month period and \$68.5 million, or 9.7% for the six month period.

Depreciation expense increased \$655,000 and \$1.2 million, or 7.0% and 6.7%, for the three and six months ended June 30, 2001 as compared with the same periods in 2000, primarily due to the initiation of depreciation on recently developed communities as well as the depreciation of communities acquired during the second half of 2000.

General and administrative expenses increased \$118,000 and \$382,000, or 11.5% and 19.5%, for the three and six months ended June 30, 2001 as compared to the same periods in 2000. This increase was primarily the result of an increase in compensation costs of \$199,000 due to performance stock grants which partially vested during the six months ended June 30, 2001, as well as an increase in the reserve for the costs of abandoned pursuit projects of \$120,000. As a percentage of revenues, general and administrative expenses were 2.3% and 2.4% for the three and six months ended June 30, 2001 and 2.2% and 2.1% for the same periods in 2000.

Management considers events and circumstances that may indicate impairment of an investment, including operating performance and cash flow projections. Management determined during the three months ended June 30, 2001 that our investments in Broadband Now, Inc. and Yieldstar Technology LLC were impaired and that such impairment was other than temporary. As a result, we recorded an impairment loss during the period in the amount of \$1.2 million, which represents our entire investments in these two technology companies. We have no other technology company investments.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our net cash provided by operating activities increased from \$32.9 million for the six months ended June 30, 2000 to \$36.7 million for the same period in 2001, primarily due to a \$4.4 million increase in property operating income.

Net cash used in investing activities decreased from \$34.4 million for the six

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months ended June 30, 2000 to \$13.1 million for the same period in 2001 due to an \$11.0 million increase in proceeds from the sale of communities and a \$14.4 million decrease in capital expenditures, construction and land acquisition activity, partially offset by an increase in investments in real estate joint ventures of \$4.1 million. Property sale proceeds from six of seven communities sold during 2000 were placed in escrow in accordance with like-kind exchange income tax rules and regulations. In addition to the proceeds received in connection with the sale of the former Summit Palm Lake during the current period, proceeds from the sale of communities represent funds expended from these like-kind exchange escrows. In the event proceeds from these property sales are not fully invested in qualified like-kind property during the required time period, a special distribution may be made or company level tax may be incurred.

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Net cash provided by financing activities was \$335,000 for the six months ended June 30, 2000. Net cash used in financing activities was \$24.3 million for the six months ended June 30, 2001. The increase in cash used in financing activities is primarily due to a decrease in mortgage debt proceeds of \$47.9 million and an increase in cash used for the payment of dividends and distributions of \$1.6 million, offset by a decrease in cash used for the repurchase of common stock and common units in the aggregate of \$8.7 million, a decrease in cash used for repayments of mortgage debt of \$3.2 million, a decrease in cash used for employee notes receivable of \$6.2 million and an increase in the net proceeds from borrowings on unsecured medium-term notes of \$59.5 million which were used to repay amounts outstanding on our unsecured credit facility.

The ratio of earnings to fixed charges was 1.65 for the six months ended June 30, 2001 as compared to 1.67 for the six months ended June 30, 2000.

We have elected to be taxed as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. REITs are subject to a number of organizational and operational requirements, including a requirement that 90% of ordinary taxable income be distributed. As a REIT, we generally will not be subject to federal income tax on net income to the extent income is distributed.

Our outstanding indebtedness at June 30, 2001 totaled \$757.4 million. This amount included \$292.1 million of fixed rate conventional mortgages, \$36.8 million of variable rate tax-exempt bonds, \$338.0 million of fixed rate unsecured notes, \$4.0 million of tax-exempt fixed rate mortgages, and \$86.5 million under our unsecured credit facility.

We expect to meet our liquidity requirements over the next twelve months, including recurring capital expenditures relating to maintaining our existing communities, primarily through our working capital, net cash provided by operating activities and borrowings under our unsecured credit facility. We consider our cash provided by operating activities to be adequate to meet operating requirements and payments of dividends and distributions during the next twelve months. We expect to meet our long-term liquidity requirements, such as scheduled mortgage debt maturities, property acquisitions, financing of construction and development activities and other non-recurring capital improvements, through the issuance of unsecured notes and equity securities, from undistributed cash flow, from proceeds received from the disposition of certain communities and, in connection with the acquisition of land or improved property, through the issuance of common units.

Credit Facility

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We have a syndicated unsecured line of credit in the amount of \$225.0 million. The unsecured credit facility provides funds for new development, acquisitions and general working capital purposes. Loans under the unsecured credit facility initially bear interest at LIBOR plus 100 basis points based upon our current credit rating of BBB- by Standard & Poor's Rating Services and Baa3 by Moody's Investors Service. The interest rate will be reduced in the event of an upgrade of our unsecured credit rating. The unsecured credit facility also provides a bid option sub-facility equal to a maximum of 50% of the total facility (\$112.5 million). This sub-facility provides us with the option to place borrowings in a fixed LIBOR contract up to 180 days. The credit facility's initial three-year term was scheduled to expire on September 26, 2003. On July 6, 2001, we closed on a one-year extension option, subject to the satisfaction of certain conditions, under the credit facility. The new maturity date is September 26, 2004. All other terms and covenants remain unchanged.

Medium-Term Notes

On April 20, 2000, we commenced a new program for the sale by the Operating Partnership of up to \$250.0 million aggregate principal amount of medium-term notes due nine months or more from the date of issuance. During the six months ended June 30, 2001, the Operating Partnership issued medium-term notes with an aggregate principal amount of \$60.0 million in connection with the new MTN program, including (a) \$25.0 million of notes which are due on May 9, 2006 and bear interest at 7.04% per year and (b) \$35.0 million of notes which are due on May 9, 2011 and bear interest at 7.703% per year. We had medium-term notes with an aggregate principal amount of \$112.0 million outstanding in connection with the new MTN program at June 30, 2001.

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On May 29, 1998, we established a program for the sale by the Operating Partnership of up to \$95.0 million aggregate principal amount of medium-term notes due nine months or more from the date of issuance. We had medium-term notes with an aggregate principal amount of \$55.0 million outstanding in connection with this MTN program at June 30, 2001. On July 30, 2001, one of the medium-term notes in the principal amount of \$30 million matured and was repaid. As a result of the commencement of the \$250.0 million MTN program, we cannot issue any additional notes under the \$95.0 million MTN program.

Derivative Financial Instruments

We are exposed to market risk, such as changes in interest rates. To manage the volatility relating to interest rate risk, we may enter into interest rate hedging arrangements from time to time. We do not utilize derivative financial instruments for trading or speculative purposes.

On January 1, 2001, we adopted Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. FAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The cumulative effect of adopting FAS 133 was not material to our financial statements.

At June 30, 2001, we had one interest rate swap with a notional amount of \$30.0 million, relating to \$30.0 million of 6.625% fixed rate notes issued under our MTN Program. Under the interest rate swap agreement, through the maturity date of December 15, 2003, (a) we have agreed to pay to the counterparty the interest on a \$30.0 million notional amount at a floating interest rate of three-month LIBOR plus 11 basis points, and (b) the counterparty has agreed to pay to us the

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interest on the same notional amount at the fixed rate. The floating rate at June 30, 2001 was 4.00%. The fair value of the interest rate swap was \$1.1 million at June 30, 2001. The swap has been designated as a fair value hedge of the underlying fixed rate debt obligation and has been recorded as a reduction of the related debt instrument. We assume no ineffectiveness as the interest rate swap meets the short-cut method conditions required under FAS 133 for fair value hedges of debt instruments. Accordingly, no gains or losses were recorded in income relative to our underlying debt and interest rate swap.

Preferred Units

As of June 30, 2001, the Operating Partnership had outstanding 3.4 million preferred units of limited partnership interest designated as 8.95% Series B Cumulative Redeemable Perpetual Preferred Units. These preferred units are redeemable by the Operating Partnership on or after April 29, 2004 for cash, or at our option, shares of our 8.95% Series B Cumulative Redeemable Perpetual Preferred Stock, or a combination of cash and stock. Holders of the Series B preferred units have the right to exchange these preferred units for shares of our Series B preferred stock on a one-for-one basis, subject to adjustment: (a) on or after April 29, 2009, (b) if full quarterly distributions are not made for six quarters, or (c) upon the occurrence of specified events related to the treatment of the Operating Partnership or the preferred units for federal income tax purposes. Distributions on the Series B preferred units are cumulative from the date of original issuance and are payable quarterly at the rate of 8.95% per year of the \$25.00 original capital contribution. We made distributions to the holders of the Series B preferred units in the aggregate amount of \$3.8 million during each of the six month periods ended June 30, 2001 and 2000.

As of June 30, 2001, the Operating Partnership had outstanding 2.2 million preferred units of limited partnership interest designated as 8.75% Series C Cumulative Redeemable Perpetual Preferred Units. The preferred units are redeemable by the Operating Partnership on or after September 3, 2004 for cash. Holders of the Series C preferred units have the right to exchange these preferred units for shares of our Series C preferred stock on a one-for-one basis, subject to adjustment: (a) on or after September 3, 2009, (b) if full quarterly distributions are not made for six quarters, (c) upon the occurrence of specified events related to the treatment of the Operating Partnership or the preferred units for federal income tax purposes, or (d) if the holdings in the Operating Partnership of the Series C unitholder exceed 18% of the total profits of or capital

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interest in the Operating Partnership for a taxable year. Distributions on the Series C preferred units are cumulative from the date of original issuance and are payable quarterly at the rate of 8.75% per year of the \$25.00 original capital contribution. We made distributions to the holder of the Series C preferred units in the aggregate amount of \$2.4 million during each of the six month periods ended June 30, 2001 and 2000.

Common Stock Repurchase Program

On March 12, 2000, our Board of Directors authorized a common stock repurchase program pursuant to which we are authorized to purchase up to an aggregate of \$25.0 million of currently issued and outstanding shares of our common stock. All repurchases have been, and will be, made on the open market at prevailing prices or in privately negotiated transactions. This authority may be exercised from time to time and in such amounts as market conditions warrant. We did not repurchase any shares of our common stock during the six months ended June 30, 2001. During the year ended December 31, 2000, we repurchased 279,400 shares of our common stock under the common stock repurchase program for an aggregate

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purchase price, including commissions, of \$5.5 million, or an average price of \$19.80 per share.

During 2000, we completed a common stock repurchase program pursuant to which we were authorized to purchase up to an aggregate of \$50.0 million of our common stock. The total number of shares of our common stock repurchased under this program was 2.5 million shares for an aggregate purchase price, including commissions, of \$50.0 million, or an average price of \$19.63 per share.

Employee Loan Program

Our Board of Directors believes that ownership of our common stock by our executive officers and certain other qualified employees will align the interests of these officers and employees with the interests of our stockholders. To this end, our Board of Directors approved, and we instituted, a loan program under which we may lend amounts to certain of our executive officers and other qualified employees to (a) finance the purchase of our common stock on the open market at then-current market prices, (b) finance the payment of the exercise price of one or more stock options to purchase shares of our common stock, or (c) finance the annual tax liability or other expenses of an executive officer related to the vesting of shares of common stock which constitute a portion of a restricted stock award granted to the executive officer. We have amended the terms of the loan program from time to time since its inception in 1997. The relevant officer or employee has executed a Promissory Note and Security Agreement related to each loan extended. These notes bear interest at the applicable federal rate as established by the Internal Revenue Service, are full recourse to the officers and employees and are collateralized by the shares of our common stock which are the subject of the loans.

COMMUNITIES BEING MARKETED FOR SALE

At June 30, 2001, we had four apartment communities and one parcel of land under contract for sale as part of our strategy to exit our non-core markets. The net book value of these communities and land was \$73.4 million at June 30, 2001. We anticipate recording a net gain upon the sale of this real estate. Proceeds from the sale of the communities are expected to be used to fund future development. The four apartment communities held for sale represented 4.1% of property operating income for all of our communities for the three and six months ended June 30, 2001. The sale of each of these communities and land is subject to customary closing conditions. We cannot assure you that these communities or other communities that we market for sale will be sold in a timely manner, on favorable terms or at all.

Station Hill had one community under contract for sale at June 30, 2001. The net book value of the community was \$10.2 million at June 30, 2001 and it represented 14.3% and 14.2% of Station Hill's property operating income for the three and six months ended June 30, 2001, respectively. Station Hill does not expect to record a loss upon sale of this community.

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DEVELOPMENT ACTIVITY

Our construction in progress at June 30, 2001 is summarized as follows (dollars in thousands):

APARTMENT	TOTAL ESTIMATED	COST TO	ESTIMATED COST TO	ANTI CONS
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COMMUNITY -----	HOMES -----	COSTS -----	DATE -----	COMPLETE -----	COM -----
Summit Deerfield -- Cincinnati, OH (1)					
(2).....	498	\$ 44,500	\$ 41,516	\$ 2,984	Q3
Summit Overlook -- Raleigh, NC (1).....	320	25,500	23,035	2,465	Q3
Summit Crest -- Raleigh, NC (1).....	438	30,700	30,428	272	Q3
Summit Peachtree City -- Atlanta, GA (1)....	399	31,500	31,410	90	Q3
Summit Grand Parc -- Washington, DC.....	105	29,400	17,933	11,467	Q1
Summit Shiloh II -- Atlanta, GA.....	50	3,900	766	3,134	Q2
Summit Brookwood -- Atlanta, GA.....	359	41,500	10,759	30,741	Q4
Summit Valley Brook -- Philadelphia, PA.....	352	37,000	13,338	23,662	Q1
Other development and construction costs					
(3).....	--	--	63,000	--	
	-----	-----	-----	-----	
	2,521	\$244,000	\$232,185	\$74,815	
	=====	=====	=====	=====	

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- (1) These communities were in lease-up at June 30, 2001.
 - (2) Summit Deerfield is under contract for sale, expected in 2001, as part of our strategy to exit the midwest markets. We do not expect to realize a loss upon sale of Summit Deerfield, which is subject to customary closing conditions.
 - (3) Consists primarily of land held for development and other pre-development costs.

Estimated costs to complete the development communities represent substantially all of our material commitments for capital expenditures at June 30, 2001.

Certain Factors Affecting the Performance of Development Communities

We are optimistic about the operating prospects of the communities under construction. However, as with any development effort, there are uncertainties and risks associated with the communities described above. While we have prepared development budgets and have estimated completion and stabilization target dates based on what we believe are reasonable assumptions in light of current conditions, there can be no assurance that actual costs will not exceed current budgets or that we will not experience construction delays due to the unavailability of materials, weather conditions or other events.

Other development risks include the possibility of incurring additional costs or liabilities resulting from defects in construction material, and the possibility that financing may not be available on favorable terms, or at all, to pursue or complete development activities. Similarly, market conditions at the time these communities become available for leasing will affect the rental rates that may be charged and the period of time necessary to achieve stabilization, which could make one or more of the development communities unprofitable or result in achieving stabilization later than currently anticipated.

In addition, we are conducting feasibility and other pre-development work for nine communities. We could abandon the development of any one or more of these potential communities in the event that we determine that market conditions do not support development, financing is not available on favorable terms or other circumstances exist which may prevent development. Similarly, there can be no assurance that, if we do pursue one or more of these potential communities, we will be able to complete construction within the currently estimated development budgets or construction can be started at the time currently anticipated.

COMMITMENTS AND CONTINGENCIES

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The estimated cost to complete eight development projects currently under construction was \$74.8 million at June 30, 2001. Anticipated construction completion dates of the projects range from the third quarter of 2001 to the first quarter of 2003.

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On January 19, 2000, we entered into a Real Estate Purchase Agreement with a third-party real estate developer. Under the terms of the agreement, we have agreed to purchase a "Class A" mixed-use community, which will be called Summit Brickell and will be located in Miami, Florida. We expect to close on the purchase of Summit Brickell during the second half of 2002 following its completion and achievement of 85% occupancy. The final purchase price will be determined based on actual construction costs plus a bonus to the developer based on the capitalized income of the property at the time of purchase. The purchase price is expected to range from \$50.5 million to \$60.0 million. The purchase price of Summit Brickell is subject to customary closing conditions. We issued a letter of credit in the amount of \$13.0 million, which serves as a credit enhancement to the developer's construction loan. In the event that any amount under the letter of credit is drawn upon, we shall be treated as having issued a loan to the developer in the amount of such draw. Any such loan will accrue interest at a rate of 18% per year.

We have an employment agreement with one of our former executive officers who resigned from such executive position but will remain as an employee, and has agreed to provide various services to us from time to time over the next ten years. The employment agreement requires that we pay this former officer a base salary aggregating up to \$2.1 million over the period from July 1, 2001 to December 31, 2011. Either party can terminate the employment agreement, effective 20 business days after written notice is given. The full base salary amount shall be payable through 2011 whether or not the agreement is terminated earlier in accordance with its terms.

FUNDS FROM OPERATIONS

We consider funds from operations ("FFO") to be an appropriate measure of performance of an equity REIT. We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net income (loss) excluding gains or losses from sales of property, plus depreciation of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures, all determined on a consistent basis in accordance with generally accepted accounting principles ("GAAP"). Funds Available for Distribution ("FAD") is defined as FFO less capital expenditures funded by operations (recurring capital expenditures). Our methodology for calculating FFO and FAD may differ from the methodology for calculating FFO and FAD utilized by other real estate companies, and accordingly, may not be comparable to other real estate companies. FFO and FAD do not represent amounts available for management's discretionary use because of needed capital expenditures or expansion, debt service obligations, property acquisitions, development, dividends and distributions or other commitments and uncertainties. FFO and FAD should not be considered as alternatives to net income (determined in accordance with GAAP) as an indication of our financial performance or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor are they indicative of funds available to fund our cash needs, including our ability to make dividend or distribution payments. We believe FFO and FAD are helpful to investors as measures of our performance because, along with cash flows from operating activities, financing activities and investing activities, they provide investors with an understanding of our ability to incur and service debt and make capital expenditures.

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FFO and FAD for the three and six months ended June 30, 2001 and 2000 are calculated as follows (dollars in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Net income.....	\$ 16,217	\$ 11,792	\$ 24,273	\$ 21,3
Minority interest of Unitholders in Operating Partnership.....	2,658	1,924	3,984	3,4
Gain on sale of real estate assets.....	(10,782)	(5,446)	(10,782)	(7,8
Gain on sale of real estate assets -- Management Company.....	--	--	--	(2
Adjusted net income.....	8,093	8,270	17,475	16,6
Depreciation:				
Real estate assets.....	9,961	9,326	19,347	18,1
Real estate joint venture.....	376	415	574	5
Funds from Operations.....	18,430	18,011	37,396	35,4
Recurring capital expenditures (1).....	(1,599)	(1,563)	(2,563)	(2,5
Funds Available for Distribution.....	\$ 16,831	\$ 16,448	\$ 34,833	\$ 32,9
Non-recurring capital expenditures (2).....	\$ 1,569	\$ 395	\$ 3,699	\$ 1,3
Cash Flow Provided By (Used In):				
Operating Activities.....	\$ 21,591	\$ 21,344	\$ 36,730	\$ 32,8
Investing Activities.....	(7,770)	(23,336)	(13,059)	(34,3
Financing Activities.....	(13,757)	1,414	(24,315)	3
Weighted average shares and units outstanding -- basic.....	31,099,292	30,531,837	31,050,037	30,668,8
Weighted average shares and units outstanding - diluted.....	31,421,902	30,696,803	31,355,825	30,787,7

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- (1) Recurring capital expenditures are expected to be funded from operations and consist primarily of interior painting, carpets, new appliances, vinyl, blinds, tile, and wallpaper. In contrast, non-recurring capital expenditures, such as major improvements, new garages and access gates, are expected to be funded by financing activities and, therefore, are not included in the calculation of FAD.
 - (2) Non-recurring capital expenditures for the six months ended June 30, 2001 and 2000 primarily consist of: \$542,000 and \$1.1 million for major renovations in 2001 and 2000, respectively; \$115,000 and \$53,000 for access gates and security fences in 2001 and 2000, respectively; \$1.4 million and \$80,000 in other revenue enhancement expenditures in 2001 and 2000, respectively and \$1.6 million in fixed asset additions including management information systems expenditures and other property improvements during the six months ended June 30, 2001.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in our market risk since the filing of our Annual Report on Form 10-K for the year ended December 31, 2000.

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PART II

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 8, 2001, we held our 2001 annual meeting of stockholders. At the annual meeting, our stockholders were asked to consider a proposal to elect two Class I directors to serve until the 2004 annual meeting and until their respective successors are duly elected and qualified. James H. Hance, Jr. and Henry H. Fishkind were nominated by the Board of Directors to serve as Class I directors. Mr. Hance received 19,879,277 votes in favor of his election with 2,093,976 votes withheld; and Mr. Fishkind received 20,651,980 votes in favor of his election with 1,321,273 votes withheld. As a result, Messrs. Hance and Fishkind were elected as Class I directors to serve until the 2004 annual meeting and until their respective successors are duly elected and qualified.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- *10.1 Employment Agreement dated February 15, 1999, by and among William F. Paulsen, Summit Properties Inc. and Summit Management Company, as restated on April 3, 2001.
- *10.2 7.04% Medium-Term Note due 2006 in the principal amount of \$25,000,000 issued by the Operating Partnership on May 9, 2001.
- *10.3 7.703% Medium-Term Note due 2011 in the principal amount of \$35,000,000 issued by the Operating Partnership on May 9, 2001.
- *10.4 Amendment No. 1 to Amended and Restated Credit Agreement dated as of July 6, 2001, by and among the Operating Partnership, Summit Properties Inc. and the lenders named therein.
- *12.1 Statement Regarding Calculation of Ratio of Earnings to Fixed Charges for the six months ended June 30, 2001.

* Filed herewith

(b) Reports on Form 8-K

We did not file any reports on Form 8-K during the second quarter of 2001.

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SIGNATURES

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

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undersigned thereunto duly authorized.

August 9, 2001

(Date)

August 9, 2001

(Date)

SUMMIT PROPERTIES INC.

/s/ STEVEN R. LEBLANC

Steven R. LeBlanc,
Chief Executive Officer

/s/ MICHAEL L. SCHWARZ

Michael L. Schwarz,
Executive Vice President -- Operations
and Chief Financial Officer