

Edgar Filing: AEGIS REALTY INC - Form 10-K

AEGIS REALTY INC  
Form 10-K  
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2001

OR

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

Commission File Number 1-13239

AEGIS REALTY, INC.  
-----

(Exact name of Registrant as specified in its Charter)

----- MARYLAND -----	13-3916825
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
625 Madison Avenue, New York, New York	10022
-----	-----
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (212) 421-5333

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS  
-----  
Common Stock, par value \$.01 per share  
  
Name of each exchange on which registered:  
-----  
American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:  
None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any

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amendment to this Form 10-K. [X]

The approximate aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of March 14, 2002 was \$87,199,068, based on a price of \$11.08 per share, the closing sales price for the Registrant's Common Stock on the American Stock Exchange on that date.

As of March 14, 2002, there were 8,054,631 outstanding shares of the Registrant's Common Stock.

### DOCUMENTS INCORPORATED BY REFERENCE

Index to exhibits may be found on page 37  
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### DOCUMENTS INCORPORATED BY REFERENCE

PART III: Those portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on June 11, 2002, which are incorporated into Items 10, 11, 12 and 13.

Index to exhibits may be found on page 44.

### CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

WHEN USED IN THIS ANNUAL REPORT ON FORM 10-K, THE WORDS "BELIEVES," "ANTICIPATES," "EXPECTS" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. STATEMENTS LOOKING FORWARD IN TIME ARE INCLUDED IN THIS ANNUAL REPORT ON FORM 10-K PURSUANT TO THE "SAFE HARBOR" PROVISION OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY, INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH IN "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.

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### PART I

Item 1. Business.

#### GENERAL

Aegis Realty, Inc. ("Aegis" or the "Company") is a Maryland corporation that has qualified as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 as amended (the "Code"). The Company was formed to acquire, renovate, own and operate primarily supermarket-anchored neighborhood shopping centers. As of December 31, 2001, the Company owned a portfolio of 28 retail properties (the "Retail Properties") containing a total of approximately 3.0 million gross leaseable square feet ("GLA") and held partnership interests in two suburban garden apartment properties (the "Multifamily Properties"). The locations of the assets in 14 states provide the Company with a geographically diverse portfolio. Moreover, the Company has a predictable and stable revenue stream that, for the year ended December 31, 2001, was derived approximately 47% from either base rent from anchor tenants or from interest payments on one FHA

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insured participating mortgage secured by a suburban garden apartment property (the "FHA Mortgage"), which was sold in April 2001.

The Retail Properties are well located neighborhood shopping centers anchored by nationally recognized and/or credit tenants such as Kroger, Publix, Safeway, Food Lion, Bi-Lo, Hy-Vee, Walgreens and CVS Stores. The neighborhood centers are typically open air centers ranging in size from 58,000 GLA to approximately 214,000 GLA, with an average of approximately 108,000 GLA. These centers are usually leased to tenants that provide consumers with convenient access to every day necessity items, such as food and pharmacy items; therefore, the Company believes that the economic performance of these centers is less affected by downturns than other retail property types. As of December 31, 2001, the Retail Properties had an average financial occupancy of 89.3%. Through 2006, no more than 11.7% of leased GLA is subject to expiration in any one year. The Multifamily Properties total 290 units and had an average physical occupancy of 96.6% as of December 31, 2001.

### ORGANIZATION

The Company was formed on October 1, 1997 as the result of the consolidation (the "Consolidation") of four publicly registered, non-listed limited partnerships, Summit Insured Equity L.P. ("Insured I"), Summit Insured Equity L.P. II ("Insured II"), Summit Preferred Equity L.P. and Eagle Insured, L.P. (the "Partnerships", and each individually a "Partnership"). One of the general partners of the Partnerships was an affiliate of Related Capital Company ("Related"), a nationwide, fully integrated real estate financial services firm. Pursuant to the Consolidation, the Company issued shares of its common stock, par value \$.01 per share (the "Common Stock") to all partners in the Partnerships in exchange for their interests in the Partnerships based upon each partner's proportionate interest in the Common Stock issued to their Partnership in the Consolidation. The Common Stock commenced trading on the American Stock Exchange on October 10, 1997 under the symbol "AER".

The Company is governed by a board of directors comprised of two independent directors and three directors who are affiliated with Related. The Company has engaged Related Aegis LP (the "Advisor"), a Delaware limited partnership and an affiliate of Related, to manage its day to day affairs. Through the Advisor, Related offers the Company a core group of experienced staff and executive management, who provide the Company with services on both a full and part-time basis. These services include, among other things, acquisition, financial, accounting, capital markets, asset monitoring, portfolio management, investor relations and public relations services. The Company believes that it benefits significantly from its relationship with Related, since Related provides the Company with resources that are not generally available to small capitalized, self-managed REITs.

In addition, RCC Property Advisors (the "Property Manager"), also an affiliate of Related, has been retained by the Company to provide property management and leasing services to the Retail Properties. The Property Manager is a full service retail management company which has 23 employees, employed in the areas of leasing, accounting, management and redevelopment. The Company represents substantially all of the Property Manager's property management revenue and therefore substantially all of its staff is engaged, on a full-time basis, providing services to the Company.

The Company owns all of its assets directly or indirectly through Aegis Realty Operating Partnership, LP, a Delaware limited partnership (the "Operating Partnership" or "OP"), of which the Company is the sole general partner and holder of 91.31% of the units of partnership interest (the "OP Units") at December 31, 2001. Also, at December 31, 2001, 5.54% of the OP Units are held by the sellers of three of the Retail Properties and 3.15% are held by affiliates of Related.

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### BUSINESS PLAN

On December 21, 2000, the Company entered into a definitive acquisition agreement to acquire a portfolio of 19 shopping centers and several retail development opportunities (the "Acquisition Transaction") from P'OB. Montgomery & Company ("POB"). On August 7, 2001, the Company announced that it had terminated the Acquisition Transaction, by mutual consent with POB, for a fee of \$350,000.

In light of the decision to terminate the Acquisition Transaction, the Company, at the direction of the Board of Trustees, has retained Robertson Stephens to assist in developing an appropriate marketing strategy for the potential sale of the Company or its assets. If acceptable values cannot be achieved, the Board of Trustees will then pursue alternative strategies with the goal of maximizing stockholder value. The Company has discontinued its pursuit of additional investments and is focusing on the continuation of active management, leasing and redevelopment of the property portfolio in order to maintain the value of its portfolio upon a sale.

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### RETAIL PROPERTIES

As of December 31, 2001, the Company owned 28 neighborhood shopping centers. See "Item 2. Properties" for a description of each property.

None of the Company's investment properties accounted for 10% or more of the Company's total gross revenues for any of the three years in the period ended December 31, 2001.

During the years ended December 31, 2001, 2000 and 1999, the Kroger Company, which is a tenant at six shopping centers, accounted for approximately 12%, 11% and 12%, respectively, of the Company's total revenues.

Based on the carrying value at December 31, 2001, approximately 16% of the Company's investment properties are located in Ohio, 11% are located in Florida, and 11% are located in Virginia. No other state comprises more than 10% of the total carrying value.

The Company has been notified that K-Mart, which has declared bankruptcy, intends to close its store located in the Centre Stage Shopping Center in Springfield, Tennessee. The store has approximately 86,479 feet of gross leasable area and represents approximately \$397,000 in annualized base rent. The store is currently in operation and rental payments are current; however, the Company cannot currently assess how the closing of the store will affect 2002 operating results until more details are provided by K-Mart.

### INVESTMENTS IN PARTNERSHIPS

As of December 31, 2001, the Company owned equity interests in two partnerships, each of which owns a multi-family residential garden apartment property. See "Item 2. Properties" for a description of each property.

### MORTGAGE LOAN RECEIVABLE

As of December 31, 2000, the Company held a FHA mortgage and an equity loan secured by Woodgate Manor, an apartment complex located in Gainesville, Florida. The FHA mortgage, in the original amount of \$3,110,300, had a stated interest rate of 8.95% and matured January 1, 2024.

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The equity loan, in the original amount of \$339,700, represented a non-interest bearing advance made to the developer for such items as initial operating deficit escrow requirements and HUD related contingencies such as working capital escrow and cash requirements.

On April 23, 2001, the owner of Woodgate Manor sold the property to a third party. The Company received approximately \$3.2 million from the borrower which approximated the carrying value of the receivable.

### COMPETITION

The real estate business is highly competitive and substantially all of the properties owned by the Company have active competition from similar properties in their respective vicinities. See the table in "Item 2. Properties" for additional competitive information. In particular, additional rental payments which are not insured are dependent upon the economic performance of the properties and may be affected by competitive conditions. In addition, various other entities have been or may, in the future, be formed by affiliates of the Advisor to engage in businesses which may be competitive with the Company or compete for the time and services of management of the Advisor.

### REGULATIONS

A current or previous owner or operator of real property may be legally liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such liability may exist whether or not the owner or operator knew of, or was responsible for, such hazardous or toxic substances. In addition, the presence of hazardous or toxic substances may adversely affect the owner's ability to borrow funds using such real property as collateral. Certain environmental laws impose liability for release of asbestos-containing materials ("ACMs") into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with ACMs. In connection with the ownership (direct or indirect), operation, management and development of real properties, the Company may be liable for removal or remediation costs, as well as certain other potential costs which could relate to such hazardous or toxic substances or ACMs (including governmental fines and injuries to persons and property). To date, the Company has not incurred any costs of removal or remediations of such hazardous or toxic substances. However, the presence, with or without the Company's knowledge, of hazardous or toxic substances at any property held or operated by the Company could have an adverse effect on the Company's business, operating results and financial condition.

Phase I Environmental Site Assessments have been undertaken on all of the Company's properties. In certain cases, additional Phase II site investigations have also been undertaken where deemed appropriate. Based on these reports, no on-site hazardous chemicals or petroleum products were detected or found to exist in the soil or in the groundwater at those properties which would result in action by state environmental agencies and which would require additional investigation and/or remediation. In February 1998, a Phase II investigation of the Mountain Park Plaza property determined that there were detectable levels of certain hazardous materials above threshold levels which are ascertained by the Georgia State Department of Natural Resources Environmental Protection Division ("GAEPD"). A subsequent re-sampling indicated that no hazardous materials remain detectable above the threshold levels which are ascertained by GAEPD to require remediation and management has installed wells on the site to monitor ongoing levels of hazardous materials in the ground water pursuant to GAEPD policy.

### NOTES PAYABLE

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For information regarding the Company's notes payable, see Note 7 of Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data".

### EMPLOYEES

The Company does not directly employ anyone. All services are performed for the Company by the Advisor and its affiliates. The Advisor receives compensation in connection with such activities as set forth in Items 8, 11 and 13. In addition, the Company reimburses the Advisor and certain of its affiliates for expenses incurred in connection with the performance by their employees of services for the Company in accordance with the Advisory Agreement between the Company, the OP and the Advisor dated October 1, 1997 which was renewed on October 1, 2001.

The 28 Retail Properties owned by the Company are managed by the Property Manager, an affiliate of the Advisor, for a fee equal to 4.5% of the gross rental receipts from the Retail Properties, which is competitive with such fees paid in the areas in which the properties are located. The Property Manager also receives standard leasing commissions for space leased to new tenants and for lease renewals and is reimbursed for certain expenses. Management fees earned by the Property Manager for the years ended December 31, 2001, 2000 and 1999 totaled approximately \$1,138,000, \$1,085,000 and \$1,037,000, respectively.

The Company has qualified as a REIT under the Code. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income ("Taxable Income") which is distributed to its stockholders provided that at least 90% of Taxable Income is distributed and provided that such income meets certain other conditions. Accordingly, no provision for federal income taxes is required. The Company may be subject to state taxes in certain jurisdictions.

### Item 2. Properties.

#### RETAIL PROPERTIES

As of December 31, 2001, the Company owned 28 neighborhood shopping centers. The following is a description of these shopping centers:

NAME AND LOCATION -----	PURCHASE PRICE -----	DATE PURCHASED -----	GROSS LEASABLE SQUARE FEET -----	% SQUARE FEET LEASED AT DECEMBER 31, 2001 -----	ANNUALIZED BASE RENT AT DECEMBER 31, 2001 -----
Cactus Village Glendale, AZ	\$ 6,330,000	7/25/87	72,598	90%	\$476,000
Hickory Plaza Nashville, TN	4,902,000	4/23/87	67,336	100	549,000
Highland Fair Gresham, OR	5,950,000	7/24/87	74,764	95	624,000
Pablo Plaza Jacksonville, FL	7,500,000	2/18/87	145,565	99	1,102,000
Southhaven Southhaven, MS	5,666,000	2/28/87	83,750	84	466,000
Town West	4,932,000	5/11/87	88,200	96	462,000

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Westbird Miami, FL	7,000,000	12/31/86	100,087	95	887,000
Winery Square Fairfield, CA	12,801,700	12/22/87	121,950	95	1,101,000
Mountain View Village Snellville, GA	10,350,000	7/25/88	99,908	99	865,000
Forest Park Square Cincinnati, OH	8,950,000	5/19/89	92,824	100	949,000
Kokomo Plaza Kokomo, IN	6,987,000	5/19/89	89,546	100	621,000
Rolling Hills Square Tucson, AZ	6,100,000	08/18/88	114,081 (d)	96	858,000

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NAME AND LOCATION -----	PURCHASE PRICE -----	DATE PURCHASED -----	GROSS LEASABLE SQUARE FEET -----	% SQUARE FEET LEASED AT DECEMBER 31, 2001 -----	ANNUALIZED BASE RENT AT DECEMBER 31, 2001 -----
Mountain Park Plaza Atlanta, GA	6,650,000	12/14/89	77,686	90	260,000
Applewood Centre Omaha, NE	7,700,000	11/08/90	101,130	95	690,000
Birdneck Center Virginia Beach, VA	3,115,000	12/31/97	67,060	96	461,000
The Market Place Newton, NC	5,400,000	12/31/97	126,435	95	699,000
Barclay Place Lakeland, FL	3,800,000	3/31/98	81,459	78	505,000
The Village At Waterford Midlothian, VA	6,250,000	4/22/98	79,162	97	672,000
Governor's Square Montgomery, AL	8,200,000	5/28/98	183,339	94	1,059,000
Marion City Square Marion, NC	5,100,000	6/25/98	164,921	84	759,000
Dunlop Village Colonial Heights, VA	5,000,000	9/1/98	77,315	87	508,000

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Centre Stage Springfield, TN	6,990,000	9/2/98	146,549	94	737,000
White Oaks Plaza Spindale, NC	8,125,000	9/9/98	186,758	71	469,000
Cape Henry Virginia Beach, VA	3,900,000	9/29/98	58,424	100	533,000
Emporia West Emporia, KS	2,900,000	11/17/98	76,705	100	386,000
Oxford Mall Oxford, MS	8,650,000	11/24/98	166,880	73	1,037,000
Southgate Heath, OH	15,100,000	12/9/98	214,321	97	1,666,000
Crossroads East Columbus, OH	4,800,000	12/9/98	71,925	86	511,000

- (a) Tenant has vacated but continues to be liable for all amounts due under its lease. The tenant is currently in arrears as it relates to a contractual increase in minimum rent of \$.10 per square foot per year (approximately \$4,200 per year). The aggregate arrears as of December 31, 2001 was \$20,910. The arrears is due to different interpretations of the lease which is expected to be resolved in 2002. With the exception of this amount, lease payments are current as of December 31, 2001.
- (b) Publix has vacated and has subleased the space to Office Depot. Publix continues to be liable for all amounts due under its lease. Payments due under sublease were current as of December 31, 2001.
- (c) Tenant closed its store on February 28, 2000 but original lessee is still obligated to pay rent under its lease. Tenant stopped paying rents in April 2001. Aggregate arrears at December 31, 2001 was \$88,742.
- (d) Square footage does not include the 5,400 Brake Max parcel under construction at December 31, 2001.
- (e) A new lease has been executed with Publix, which is expected to open in July 2002. Annual base rent is \$409,507. The anchor tenant space was under construction at December 31, 2001. Annualized rent does not include the Publix base rent amount. Gross leasable square footage contains a demolished portion of the building (44,026 square feet) not the square feet under construction at December 31, 2001 (46,971 square feet).
- (f) Tenant was vacated on November 4, 2000, but is still responsible for rent through the termination of lease. Lease rents were current as of December 31, 2001.
- (g) Both Winn-Dixie and Wal-Mart have vacated but are responsible for rent through the termination of the lease. Lease rents were current as of



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December 31, 2001.

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- (h) The portion of the property occupied by Wal-Mart (92,950 square feet) is not owned by the Company.
- (i) The tenant's parent corporation, Penn Traffic Co. filed for Chapter 11 bankruptcy on March 1, 1999. Lease payments are current as of December 31, 2001.
- (j) The current configuration of the shopping center does not include an anchor tenant.
- (k) The Company has been notified that K-Mart intends to close its 86,479 square foot facility which paid a base rent of \$397,000 per annum.

For further information regarding the Company's Retail Properties, including information regarding the mortgage indebtedness encumbering certain properties, see "Item 8. Financial Statements and Supplementary Data" and "Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K - Financial Statement Schedules - Schedule III".

### INVESTMENTS IN PARTNERSHIPS

As of December 31, 2001, the Company owned partnership interests in two partnerships, each of which owns a multi-family residential garden apartment property.

The Company owns a 98.99% limited partnership interest in the TCR-Pinehurst Limited Partnership ("Pinehurst"), which acquired and operates the Pinehurst apartment complex in Kansas City, Missouri. Under the original terms of this investment, the Company is entitled to a preferred equity return of 8.8% per annum on an initial investment of \$3,799,620, and 9.85% on a subsequent investment of \$1,949,805. These preferred equity returns are cumulative and non interest-bearing. The cumulative, unrecorded and undistributed preferred equity returns to the Company totaled \$1,880,466 and \$1,826,245 at December 31, 2001 and 2000, respectively. These preferred equity returns are payable from excess cash flow from operations or proceeds from a sale or refinancing of Pinehurst's rental property. The Pinehurst apartment complex contains 96 apartment units and was approximately 97.9% occupied as of December 31, 2001.

On August 26, 1998, the Company invested \$895,200 for a 40% interest as a limited partner in FAI, Ltd. ("FAI"), the limited partnership which owns Weatherly Walk Apartments. This equity interest earns an annual preferred return of 10.5% on \$895,200, paid monthly, plus 40% of excess cash flow and sale or refinancing proceeds. As of December 31, 2001, the Company had received most of the preferred returns due from FAI. Weatherly Walk Apartments contains 194 apartment units and was approximately 96% occupied as of December 31, 2001.

### Item 3. Legal Proceedings

As of October 29, 2001 each of three lawsuits filed in connection with the Aegis transaction had been dismissed without prejudice. No money was paid by any of the defendants to any plaintiff or any plaintiff's attorney in connection with their dismissals. Following is a brief description of these lawsuits:

On or about February 8, 2001, a complaint was filed in the New York Supreme Court, County of New York, against the Advisor. Also individually named in the suit were Messrs. Boesky, Hirmes, Ross, Brenner, Allen and Fisch, each of whom is either a director of Aegis or the Advisor. Aegis was also named as a nominal

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defendant. The action is entitled PAUL V. THE RELATED COMPANIES L.P., ET AL., Index No. 01-600669. On or about March 23, 2001, a second action, entitled SCHNIPPER V. AEGIS REALTY, INC., ET AL., Case No. 219736-V, was filed in the Circuit Court for Montgomery County, Maryland against Aegis and each of Aegis's five directors (Messrs. Boesky, Brenner, Hirmes, Allen and Fisch). On or about April 2, 2001, a third action, entitled OPPORTUNITY PARTNERS, L.P. V. STUART J. BOESKY, ET AL., Civ. No. 24-C-01-001579, was filed in the Circuit Court for Baltimore County, Maryland against, among others, Aegis, each of its five directors, and the Advisors. Each suit was purportedly a class and derivative action in connection with the Acquisition Transaction. On August 27, 2001, the Company announced that it had terminated the Acquisition Transaction by mutual consent with POB.

The Company is subject to routine litigation and administrative proceedings arising in the ordinary course of business. Management does not believe that such matters will have a material adverse impact on the Company's financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Stockholders.

None

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## PART II

Item 5. Market for the Company's Common Stock and Related Stockholder Matters

As of March 14, 2002, there were 1,383 registered stockholders of record owning 8,054,631 shares of Common Stock. The Company's Common Stock has been listed on the American Stock Exchange since October 10, 1997 under the symbol "AER". Prior to October 10, 1997, there was no established public trading market for the Company's Common Stock.

The high and low prices for each quarterly period of the last two years for which the shares of Common Stock were traded were as follows:

QUARTER ENDED -----	2001 LOW -----	2001 HIGH -----	2000 LOW -----
March 31	\$10.6500	\$10.6900	\$8.3750
June 30	10.1500	10.8000	8.6250
September 30	10.4600	11.9000	9.6250
December 31	10.9000	11.7300	9.7500

The last reported sale price of Common Stock on the American Stock Exchange on March 14, 2002 was \$11.08.

### INCENTIVE STOCK OPTION PLAN

The Company has adopted an incentive stock option plan (the "Incentive Stock Option Plan"), the purpose of which is to (i) attract and retain qualified persons as directors and officers and (ii) to incentivize and more closely align the financial interests of the Advisor and its affiliates and their respective employees and officers with the interests of the stockholders by providing the Advisor and its affiliates with substantial financial interest in the Company's success. The Compensation Committee administers the Incentive Stock Option Plan.

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Pursuant to the Incentive Stock Option Plan, if the Company's distributions per share of Common Stock in the immediately preceding calendar year exceed \$0.9869 per share, the Compensation Committee has the authority to issue options to purchase, in the aggregate, that number of shares of Common Stock which does not exceed three percent of the shares outstanding as of December 31 of the immediately preceding calendar year (or in the initial year, as of October 1, 1997). Any options not granted in a given year are carried over and become available to be granted in subsequent years. The maximum number of shares that can be issued over the life of the Incentive Stock Option Plan is 805,073.

These options were issued as part of the Company's employee retention program which was adopted after the announcement that the Company would seek to sell its assets as described under the heading "Recent Developments" above. Under the program, the options generally expire if the optionee leaves the Company prior to the expiration of the three year period or sale of the Company.

### SHARE REPURCHASE PLAN

On October 9, 1998, the Board of Directors authorized the implementation of a stock repurchase plan, enabling the Company to repurchase, from time to time, up to 500,000 shares of its Common Stock. The repurchases will be made in the open market and the timing will be dependent on the availability of shares and other market conditions. As of both December 31, 2001 and 2000, the Company had acquired 6,300 shares of its Common Stock for an aggregate purchase price of \$58,579 (including commissions and service charges). Repurchased shares are accounted for as retired.

### STOCKHOLDER RIGHTS PLAN

On January 29, 1999, the Company adopted a stockholder rights plan (the "Stockholder Rights Plan"), the purpose of which is to better protect stockholders and assure that they receive the full value of their investment in the event of any proposed takeover of the Company. The Company noted that the adoption of the Stockholder Rights Plan was not in response to any specific attempt to acquire control of the Company and that the Company had no knowledge of any such interest on the part of any person or entity.

The Stockholder Rights Plan, which is similar to plans adopted by many other U.S. companies, strengthens the ability of the Board of Directors to assure that the Company's stockholders receive fair and equal treatment and protects the interests of the Company's stockholders in the event of an unsolicited offer to acquire control of the Company. Importantly, it is intended to encourage any potential acquirer to negotiate the manner and terms of any proposed acquisition with the Board of Directors.

Terms of the Stockholder Rights Plan provide for a distribution to common stockholders of record at the close of business on February 16, 1999 of one Right for each outstanding share of Common Stock of the Company. Subject to limited exceptions, the Rights will be exercisable if a person or group acquires 15% or more of the Company's Common Stock or announces a tender offer for 15% or more of the Common Stock. Depending on the circumstances, the effect of the exercise of the Rights will be to permit each holder of a Right to either purchase stock in the Company or stock of the buyer, at a substantial discount, and, in so doing, materially dilute the level of ownership of the buyer in the Company. The Company will be entitled to redeem the Rights at \$.01 per Right at any time before a person has acquired 15% or more of the outstanding Common Stock. The Stockholder Rights Plan will expire on February 16, 2009.

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Through calendar year 1999, each independent director was entitled to receive annual compensation for serving as a director in the aggregate amount of \$15,000 payable in cash (maximum of \$5,000 per year) and/or shares of Common Stock valued based on the fair market value at the date of issuance. Beginning in calendar year 2000, the annual compensation for each independent director increased from \$15,000 to \$17,500 and the maximum payable in cash increased from \$5,000 to \$7,500. In addition, each independent director received \$7,500 in cash and stock valued at \$10,000 as compensation for serving on the special committee of the Board of Directors in connection with the Acquisition Transaction. As of December 31, 2001 and 2000, 4,210 and 2,376 shares, respectively, having an aggregate value at the time of issuance of \$42,500 and \$22,500, respectively, have been issued to each of the Company's two independent directors as compensation for their services. An additional 892 shares with an aggregate value of \$10,000 were issued to each independent Director in January 2002.

### DISTRIBUTION INFORMATION

#### DISTRIBUTIONS PER SHARE

Quarterly cash distributions per common share and OP Unit for the years ended December 31, 2001 and 2000 were as follows:

CASH DISTRIBUTION FOR QUARTER ENDED -----	DATE PAID -----	PER SHARE -----	TOTAL AMOUNT DISTRIBUTED -----
March 31, 2001	5/15/01	\$ .240	\$2,116,061
June 30, 2001	8/14/01	.240	2,116,061
September 30, 2001	11/14/01	.240	2,116,470
December 31, 2001	2/14/02	.240	2,116,471
		-----	-----
Total for 2001		\$ .960 =====	\$8,465,063 =====

CASH DISTRIBUTION FOR QUARTER ENDED -----	DATE PAID -----	PER SHARE -----	TOTAL AMOUNT DISTRIBUTED -----
March 31, 2000	5/15/00	\$ .240	\$2,118,334
June 30, 2000	8/14/00	.240	2,117,421
September 30, 2000	11/14/00	.240	2,115,590
December 31, 2000	2/14/01	.240	2,115,590
		-----	-----
Total for 2000		\$ .960 =====	\$8,466,935 =====

There are no material legal restrictions upon the Company's present or future ability to make distributions in accordance with the provisions of the Company's Articles of Amendment and Restatement. However, in connection with the Credit Facility, the Company must comply with various financial covenants including maximum loan to value ratios, interest and fixed charge coverage ratios, and net worth requirements. In connection with the Company's covenant compliance certification required subsequent to the filing of the Company's second and third quarter 10-q, the Company was in compliance with all but one of these covenants. The Company was not in compliance with a covenant requiring that

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aggregate distributions by the Company during any consecutive four quarters not exceed ninety percent of the Company's funds from operations ("FFO") for such period. Unlike the covenant provisions based on adjusted net income, under the covenant in question, the Company's FFO is not adjusted for extraordinary or nonrecurring items. In the second, third and fourth quarters of 2001, FFO was significantly reduced by nonrecurring expenses related to the termination of the POB transaction. The Company received a waiver on this covenant from each of the syndicate banks of the Credit Facility for each of the quarters' of non-compliance. Future distributions paid by the Company will be at the discretion of the Directors and will depend on the actual cash flow of the Company, its financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as the Directors deem relevant.

### OPERATING PARTNERSHIP UNITS

The following table sets forth the date of issuance, title and amount of unregistered securities issued by the Company's subsidiary, the Operating Partnership:

DATE OF SALE/ISSUANCE -----	TITLE -----	NUMBER -----
Prior to 1999	OP Units	517,625
05/28/99	OP Units	28,187
12/09/99	OP Units	231,401
04/18/00	OP Units	(3,371)
06/19/00	OP Units	(8,062)
		-----
		765,780
		=====

The acquisitions of Governor's Square, Southgate and Crossroad East, three Retail Properties with purchase prices of \$8,200,000, \$15,100,000 and \$4,800,000, respectively, were partially financed through the issuance of 94,726, 208,914 and 167,149 OP Units (subject to adjustment) valued at \$1,231,438, \$2,715,882 and \$2,172,937. Of the OP units offered in the Southgate and Crossroad East transactions, 596,031 and 122,913 OP units, respectively (as subsequently adjusted, see below) were issued to affiliates of the Advisor. These 470,789 OP Units were convertible to shares of Common Stock on a one-to-one basis, subject to adjustment, on the

one year anniversary of their respective closing dates. The OP Units were issued at an agreed upon value of \$13 per OP Unit. If as of the last trading day prior to the first anniversary of the closing date (the "Post-Closing Adjustment Date"), the "Average Price Per Share" (as defined below) was less than \$13, the Company was obligated to issue additional OP Units to the respective sellers in the amount of the difference between (i) the quotient obtained by dividing the OP Unit value at \$13 per OP Unit by the Average Price Per Share as of the Post-Closing Adjustment Date and (ii) the number of OP Units issued on the closing date. The Average Price Per Share means, with respect to any given date, the average final closing price per share of Common Stock during the twenty trading day period ending on such date. An additional 28,187 OP Units were issued to the seller of Governor's Square on the Post-Closing Adjustment Date (May 28, 1999) based on an Average Price Per Share of \$10.01875. An additional 92,439 and 73,957 OP Units were issued to the sellers of Southgate and

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Crossroads East, respectively, on the Post-Closing Adjustment Date (December 9, 1999) based on an Average Price Per Share of \$9.0125.

OP Units, aggregating 718,944, have certain rights with respect to the sale, transfer or other disposition of respective properties contributed to the Company in return for such OP Units. Upon sale, transfer or other disposition of such properties within a designated restricted period, other than an exchange or other transaction which does not cause an OP Unitholder to recognize income or gain for federal income tax purposes (a "Restricted Sale"), the Company is required to pay an amount equal to their tax obligation payable, including the amount of taxes resulting from receipt of such payment, as a result of such event.

OP Units, aggregating 596,031, related to the Southgate and the Crossroad East properties have a restricted period through December 10, 2008. OP Units, aggregating 122,913, related to the Governor's Square property have a restricted period through May 28, 2003.

The amount the Company may be required to pay upon a Restricted Sale is dependent on the OP Unitholder's tax-basis capital account, effective federal tax rate and entity structure at the time a Restricted Sale occurs. The Company estimates that the additional payment required upon a Restricted Sale of all subject properties would range from \$4,800,000 to \$5,700,000, assuming effective tax rates ranging from 35% to 40%, respectively.

In addition, a note payable to the sellers of Southgate and the two notes payable to the sellers of Crossroads East in the amounts of \$200,000, \$230,000 and \$275,000, respectively, were partially repaid in the amounts of \$135,400, \$213,708 and \$236,646 through the issuance of 15,030, 23,716 and 26,259 OP Units on December 9, 1999 based on an Average Price Per Share of \$9.0125.

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### Item 6. Selected Financial Data.

The information set forth below presents selected financial data of the Company. Additional financial information is set forth in the audited financial statements and notes thereto contained in "Item 8. Financial Statements and Supplementary Data".

	YEAR ENDED DECEMBER 31,			
OPERATIONS	2001	2000	1999	1998
Total revenues	\$26,099,761	\$26,167,270	\$ 25,354,501	\$ 19,504,803
Total expenses	(25,798,039)	(20,147,117)	(19,133,837)	(13,544,516)
Income before gain on sales	301,722	6,020,153	6,220,664	5,960,287
Gain on sale of real estate	-	108,332	-	-
Gain on sale of investment in partnership (b)	-	-	-	779,893
Income before minority interest	301,722	6,128,485	6,220,664	6,740,180

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Minority interest in income of the Operating Partnership	(27,831)	(535,490)	(397,583)	(93,547)
	-----	-----	-----	-----
Net income	\$ 273,891	\$ 5,592,995	\$ 5,823,081	\$ 6,646,633
	=====	=====	=====	=====
Net income applicable to common stockholders	\$ 273,891	\$ 5,592,995	\$ 5,823,081	\$ 6,646,633
	=====	=====	=====	=====
Net income per share (f) (c)				
Basic	\$ .03	\$ .69	\$ .72	\$ .83
	=====	=====	=====	=====
Diluted	\$ .03	\$ .69	\$ .72	\$ .82
	=====	=====	=====	=====
Weighted average shares outstanding: (c)				
Basic	8,051,555	8,048,894	8,046,574	8,049,987
	=====	=====	=====	=====
Diluted	8,051,555	8,048,952	8,046,574	8,075,390
	=====	=====	=====	=====
	DECEMBER 31,			
	-----	-----	-----	-----
FINANCIAL POSITION	2001	2000	1999	1998
	-----	-----	-----	-----
Total assets	\$190,038,068	\$197,693,943	\$193,392,424	\$195,389,97
	=====	=====	=====	=====
Notes payable	\$66,147,599	\$ 64,972,605	\$ 59,239,944	\$ 58,864,09
	=====	=====	=====	=====
Total liabilities	\$ 72,032,138	\$ 71,564,672	\$ 64,830,450	\$ 65,402,56
	=====	=====	=====	=====
Minority interest	\$ 6,234,566	\$ 6,941,884	\$ 7,260,370	\$ 6,803,89
	=====	=====	=====	=====
Total stockholders' equity/partners' capital	\$111,771,364	\$119,187,387	\$121,301,604	\$123,183,50
	=====	=====	=====	=====
DISTRIBUTIONS				
Total BUC\$holder distributions	N/A	N/A	N/A	N/A
	=====	=====	=====	=====
Total stockholder distributions and OP	\$ 8,465,063	8,466,935	8,251,846	8,467,48
	=====	=====	=====	=====
Distributions per share (c)	\$ .96	\$ .96	\$ .96	\$ 1.0
	=====	=====	=====	=====

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## OTHER DATA

	YEAR ENDED DECEMBER 31, 2001 -----	DEC ----
Funds From Operations ("FFO") (g)	\$ 8,326,640 =====	\$ 1 =====
Funds Available for Distribution ("FAD") (g)	\$ 7,478,611 =====	\$ =====
FFO payout ratio (h)	101.7% =====	=====
Cash flows from:		
Operating activities	\$10,520,507 =====	\$ 1 =====
Investing activities	\$ (1,718,776) =====	\$ ( =====
Financing activities	\$ (7,359,667) =====	\$ ( =====

(a) Information prior to October 1, 1997 (the date of the Consolidation) is only with respect to Insured I. Information subsequent to September 30, 1997 is with respect to the Company and its consolidated subsidiaries which include Insured I and the other Partnerships pursuant to the Consolidation.

(b) The 1998 results of operations reflect a gain of \$779,893 recognized upon the sale of the Company's limited partnership interest in Dominion Totem Park Limited Partnership.

(c) Net income and distribution per share information for periods before October 1, 1997 is not presented because it is not indicative of the Company's continuing capital structure.

(d) Represents amount for the three months ended December 31, 1997.

(e) Represents amount for the nine months ended September 30, 1997.

(f) Net income per share equals net income divided by the weighted average shares outstanding for the period.

(g) See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a definition and calculation of Funds From Operations and Funds Available for Distribution.

(h) Represents total stockholder distributions divided by FFO.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

## LIQUIDITY AND CAPITAL RESOURCES



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The Company requires long-term financing in order to invest in and maintain its portfolio of Retail Properties and other investments. To date, this long-term liquidity has come from proceeds from the Credit Facility, notes payable assumed upon the purchase of certain properties and the issuance of shares of the Company's Common Stock or OP Units in exchange for real estate. Although the Credit Facility may be increased, the Company's Charter dictates leverage of no more than 50% of the Company's Total Market Value. On a short-term basis, the Company requires funds to pay its operating expenses and those of the Retail Properties, to make improvements to the Retail Properties, pay its debt service and make distributions to its stockholders. The primary source of the Company's short-term liquidity needs are the cash flow received from the Retail Properties and interest income.

As a REIT, the Company is required to distribute at least 90% of its taxable income to maintain REIT status. Funds generated from operations are expected to be sufficient to allow the Company to meet this requirement.

The Advisor believes that the stability of the Company's operations and its ability to maintain liquidity are enhanced by:

- (i) Geographic diversity of its portfolio of real estate.
- (ii) 47% of total revenues for the year ended December 31, 2001 were earned from shopping center anchor tenants, which are national retailers or credit tenants, and from interest on an FHA Mortgage.
- (iii) No single asset accounts for 10% or more of total revenues for the year ended December 31, 2001.
- (iv) Leases that provide for recovery of actual common area maintenance charges and real estate taxes, thereby minimizing any effects from inflation.
- (v) Leases that provide for increases in rents based on a percentage of tenants' sales.

During the year ended December 31, 2001, cash and cash equivalents of the Company and its consolidated subsidiaries increased approximately \$1,442,000. This increase was primarily due to cash from operations of approximately \$10,521,000, principal payments received on a mortgage loan \$3,217,000, and proceeds from notes payable \$1,500,000, offset by distributions paid to stockholders \$8,464,000, improvements to real estate \$3,500,000, an increase in deferred acquisition expenses of \$1,459,000 and \$325,000 in periodic principal payments on notes payable. Included in the adjustments to reconcile the net income to cash provided by operating activities is depreciation and amortization in the amount of \$5,991,000 and a loss on impairment of asset of \$2,500,000.

As part of the renewal of the lease for the anchor tenant at the Westbird property, the Company made approximately \$2,140,000 in tenant improvements during 2000. The term of the new lease is 20 years with a minimum annual rent of \$246,000. The minimum annual rent under the old lease was \$103,000. In addition, Governors Square had over \$1,250,000 in improvements and Rolling Hills had \$810,000. The total amount of all property's tenant improvements during 2000 totaled over \$6,200,000 and were funded by cash from continuing operations and borrowings on the Credit Facility.

The Company has the following problem assets which may adversely affect future operations and liquidity:

- (i) Safeway, the anchor tenant of Cactus Village Shopping Center closed its facility in December 1991 due to poor sales. The tenant is currently in arrears as it relates to a contractual increase in minimum rent of \$.10 per square foot per year (approximately \$4,200 per year). The aggregate arrears as of December

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31, 2001 is \$20,910. The arrearage is due to different interpretations of the lease which is expected to be resolved in 2002. With the exception of this amount, the tenant continues to fully abide by all aspects of its lease which will expire in September 2006. The Company is currently negotiating, with Safeway, final terms which would enable Safeway to buy-out and terminate its lease.

(ii) In July 1994, A&P closed its store in the Mountain Park Plaza Shopping Center due to reduced sales and increased competition. The Company received rental payments from the vacated tenant pursuant to the terms of the lease. In December 2000, A&P bought out its lease for \$300,000 and the Company entered into a new lease with Publix. The former A&P space has been demolished and is under reconstruction as of December 31, 2001. The Company's estimated cost to reconstruct this space is \$3,500,000 of which approximately \$1,300,000 was paid in 2001. Publix is expected to take occupancy of the new space in July 2002.

(iii) White Oaks Plaza shopping center, located in Spindale, NC, was deemed to be impaired. The Company determined that it needed to analyze this property for potential impairment due to three anchors have vacating their spaces and increased competition in the surrounding area. Two of these anchors, Walmart and Winn Dixie, are still paying rent and are current in their rent payments. Using undiscounted cash flows compared to the book value of approximately \$6.2 million resulted in a deficit, indicating impairment. The Company recognized a loss on impairment of \$2.5 million during the fourth quarter of 2001, resulting from comparing discounted cash flows (at a market discount rate for this type of property) to the book value.

(iv) Office Max, one of the anchor tenants of Town West which was under sublease, vacated its space in February 2000 but the original lessee is still obligated to pay rent. The lessee stopped paying rent in April 2001 and has been in default since that date. The Company has reserved 50% of the outstanding balance of \$88,743 at December 31, 2001.

(v) Food Lion, located in Barclay Place, closed their store in December 2000. They are still obligated to pay rent through the expiration of its lease. To date, Food Lion is current with all rent payments.

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(vi) The Company has been notified that K-Mart, which has filed for bankruptcy, intends to close its store located in the Centre Stage Shopping Center in Springfield, Tennessee. The store has approximately 86,479 square feet of gross leasable area and represents approximately \$397,000 in annualized base rent. The store is currently in operation and rental payments are current; however, the Company cannot currently assess how the closing of the store will affect 2002 operating results until more details are provided by K-Mart.

In February 2002, a distribution of \$2,116,471 (\$.24 per share), which was declared in December 2001, was paid to the stockholders from cash flow from operations for the quarter ended December 31, 2001.

Management is not aware of any trends or events, commitments or uncertainties, which have not otherwise been disclosed that will or are likely to impact liquidity in a material way.

### CRITICAL ACCOUNTING POLICIES

The Company has several accounting policies that require significant judgments to be made by Company management.

Real estate assets are recorded at the lower of cost or fair value, if impaired.

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Costs incurred for the acquisition, development, construction, and improvement of properties are capitalized. Buildings are depreciated on a straight-line basis over their estimated useful lives, generally 40 years. Maintenance and repairs are charged to expense as incurred. Renewals and betterments that significantly extend the useful life of a property are capitalized and amortized over their estimated useful lives. Tenant improvements are capitalized and amortized over the life of the lease. For redevelopment of existing operating properties, the net book value of the existing property under redevelopment plus the cost for the construction and improvements incurred in connection with the redevelopment are capitalized to the extent the capitalized costs of the property do not exceed the estimated fair value of the redeveloped property when completed. If the total cost of the redeveloped property, including the undepreciated net book value of the property carried forward, exceeds the estimated fair value of the redeveloped property, the excess is charged to expense. During 2001, the total amount of undepreciated book value carried forward on redeveloped properties totaled approximately \$1.8 million.

The Company reviews each of its property investments, including those held by the partnerships which own the multifamily properties, for possible impairment at least annually, and more frequently if circumstances warrant. Impairment of properties is determined to exist when estimated amounts recoverable through future operations on an undiscounted basis are below the properties' carrying value. If a property is determined to be impaired, it is written down to its estimated fair value.

At least annually, and more frequently if circumstances warrant, the Company evaluates the collectibility of both interest and principal of its mortgage loan receivable to determine whether it is impaired. A loan is considered to be impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is considered to be impaired, the amount of the loss accrual is determined by discounting the expected future cash flows at the loan's effective interest rate or, for practical purposes, from the estimated fair value of the collateral.

The determination of impairment is based not only upon future cash flows, which rely upon estimates and assumptions including expense growth, occupancy and rental rates, but also upon market capitalization and discount rates as well as other market indicators. Management believes that the estimates and assumptions used are appropriate in evaluating the carrying amount of the Company's properties and loan. However, changes in market conditions and circumstances may occur in the near term which would cause these estimates and assumptions to change, which, in turn, could cause the amounts ultimately realized upon the sale or other disposition of the investments to differ materially from their estimated fair value. Such changes may also require write-downs in future years. Amounts estimated to be recoverable from future operations and ultimate sales are greater than the carrying value of each property owned at December 31, 2001 and 2000. However, the carrying value of certain properties may be in excess of their fair values as of such dates. During 2001, one property became impaired due to the continued inability to replace the existing anchor tenants and attract smaller store tenants. The Company determined that the undiscounted future cash flows were less than the property's fair market value and accordingly wrote down the property to its estimated fair value, which resulted in a loss on impairment of \$2.5 million.

The Company has qualified as a REIT under the Code. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income ("Taxable Income") which is distributed to its stockholders provided that at least 90% of Taxable Income is distributed and provided that such income meets certain other conditions. Accordingly, no provision for federal income taxes is required. The Company may be subject to state taxes in certain jurisdictions.

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### RESULTS OF OPERATIONS

#### COMPARISON OF YEARS ENDED DECEMBER 31, 2001 AND 2000

Net income for the year ended December 31, 2001 decreased by approximately \$5,319,000, or 95%, as compared to the year ended 2000. Revenue for the period decreased by approximately \$68,000, or .3%, as compared 2000, while expenses increased approximately \$5,651,000, due to the one time writeoff of expenses associated with the POB Transaction and an impairment loss of \$2,500,000 on White Oaks Plaza. Minority interest in income decreased by approximately \$508,000. During the year ended December 31, 2000, the Company recognized a gain on sale of real estate of approximately \$108,000. There was no such transaction in 2001.

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The decrease in revenues for the year ended December 31, 2001 as compared to 2000 was primarily due to approximate decreases in early lease termination payments of \$483,000, decrease in income from equity investments of \$134,000 offset by an increase in rental income of \$27,000 an increase in tenant reimbursements of \$297,000 and an increase in interest income of \$206,000.

Approximately \$483,000 of the total decrease in early lease terminations was due to the lease settlements received in 2000 for Mountain Park, Marion City Square and White Oak Plaza. The decrease in income from equity investments was primarily due to \$80,000 decrease in Pinehurst income and \$54,000 decrease in Weatherly Walk income. The increase in tenant reimbursements was primarily due to \$103,000 of real estate taxes of Pablo Plaza, Rolling Hills, Southgate and Emporia West. The increase in interest income was primarily due to a \$167,000 increase in Woodgate mortgage interest and \$65,000 increase in Merrill Lynch dividend income.

The increase in expenses for the year ended December 31, 2001 as compared to 2000 was primarily due to approximate increases of \$2,847,000 in expenses associated with the terminated POB transaction and other terminated transactions, \$2,500,000 due to an impairment loss on White Oaks Plaza, \$809,000 in depreciation, \$37,000 in general and administrative expenses, \$48,000 in real estate taxes and \$24,000 in management fees partially offset by decreases of \$54,000 in operating expenses, \$71,000 in repairs and maintenance and \$522,000 in interest expense.

Repairs and maintenance decreased approximately \$71,000 due to reduced snow removal costs and \$82,000 due to reduced paving costs, partially offset by a \$62,000 increase in landscaping. The decrease in operating expenses is due to lease costs becoming fully amortized and reduced legal and government service expense. The increase in real estate taxes was primarily due to a \$54,000 increase in Rolling Hills, Southgate and Emporia West real estate taxes offset by \$28,000 decrease in Mountain Park real estate taxes. Interest expense decreased \$342,000 due to the decreased interest rates of the Credit Facility and \$180,000 less in interest expense due to the repayment of the New York Life note payable. During the year ended December 31, 2001, the Company had expenses for terminated transactions of approximately \$2,847,000. These costs were primarily related to the P.O.B. acquisition. There was no such transaction in 2000. Of the increase in depreciation and amortization, \$457,000 was due to increased depreciation in improvement of Westbird, Governor's Square and several other properties and \$236,000 was due to increased amortization of the deferred costs associated with the Credit Facility.

#### COMPARISON OF YEARS ENDED DECEMBER 31, 2000 AND 1999

Net income for the year ended December 31, 2000 decreased by approximately

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\$230,000, or 4%, as compared to the year ended 1999. Revenues, for the period, increased by approximately \$813,000, or 3%, as compared to the same period for 1999, while expenses increased by approximately \$1,013,000, or 5.3%. Minority interest in income increased by approximately \$138,000. During the year ended December 31, 2000, the Company recognized a gain on sale of real estate of approximately \$108,000. There was no such transaction in 1999.

The increase in revenues for the year ended December 31, 2000 as compared to 1999 was primarily due to approximate increases in rental income of \$276,000, an increase in income from equity investments of \$86,000, an increase in early lease termination payments of \$406,000 and an increase in interest income of \$79,000 partially offset by decreases in tenant reimbursements of \$8,000 and in other income of \$27,000.

Approximately \$378,000 of the total increase in rental income was due to the minimum rent of Winery Square, Pablo Plaza, Rolling Hills and reimbursement charges offset by the decrease in White Oak Plaza minimum rent and Oxford Mall, Southgate, Emporia West and Crossroads retro property taxes. Included in early lease termination payments is a \$300,000 lease settlement paid by A&P as a fee for terminating their lease at Mountain Park. The increase in income from equity investments was primarily due to \$23,000 increase in Pinehurst income and \$63,000 increase in Weatherly Walk income. The increase in interest income was primarily due to the \$74,000 increase in the Crossroads and Southgate OP Unit Loan mortgage interest income.

The increase in expenses for the year ended December 31, 2000 as compared to 1999, was primarily due to increases of \$187,000 in repairs and maintenance, \$58,000 in operating expenses, \$461,000 in interest expense, \$289,000 in depreciation and \$145,000 in other expenses, partially offset by a decrease in real estate taxes of approximately \$45,000 and \$80,000 in general and administrative expenses.

Repairs and maintenance increased \$88,000 due to parking lot light repairs, \$70,000 in snow removal and \$24,000 in grounds landscaping, offset by a decrease in painting of approximately \$29,000. The increase in operating expenses is due to unamortized lease costs, property management fees, and water and sewer expenses of approximately \$130,000. These operating expenses were offset by a decrease of \$62,000 in legal expenses incurred in 1999 but not in 2000. The decrease in real estate taxes was primarily due to \$125,000 of Southgate and Crossroads prior year adjustments offset by \$80,000 increase of real estate taxes. Interest expense increased \$857,000 due to the increased use of the Credit Facility and was offset by \$288,000 decrease due to the repayment of the New York Life note payable and \$104,000 decrease in rate swap interest. Of the increase in depreciation and amortization, approximately \$224,000 was due to increased depreciation of additional improvements of Governor's Square, Westbird and several other properties and \$151,000 was due to increased amortization of the deferred costs associated with the Credit Facility. These increases were partially offset by \$200,000 due to the repayment of the New York Life note payable. The increase in other expenses was due to \$193,000 in a write-off of projects that were abandoned, offset by \$61,000 decrease in bad debt expense.

A gain on sale of real estate of approximately \$108,000 was recognized in the year ended December 31, 2000. No such transaction occurred in 1999.

Minority interest in the income of the Operating Partnership increased approximately \$138,000 for the year ended December 31, 2000 as compared to 1999 primarily due to the increase in OP Units in connection with the post closing price adjustment and settlement of the seller notes relating to the acquisition of Southgate and Crossroads on December 9, 1999.

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## FUNDS FROM OPERATIONS AND FUNDS AVAILABLE FOR DISTRIBUTION

Funds from operations ("FFO"), represents net income (computed in accordance with generally accepted accounting principles) ("GAAP"), excluding gains (or losses) from debt restructuring or repayments and sales of property, impairment losses, plus depreciation and amortization and including funds from operations for unconsolidated joint ventures calculated on the same basis. FFO is calculated in accordance with the National Association of Real Estate Investment Trusts ("NAREIT") definition. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs which is disclosed in the Consolidated Statements of Cash Flows included in the financial statements, for the applicable periods. There are no material legal or functional restrictions on the use of FFO. FFO should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Management considers FFO a supplemental measure of operating performance and along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the ability of the Company to incur and service debt, to make capital expenditures, pay distributions to stockholders, and to fund other cash needs. The Company's calculation of FFO may not be comparable to calculations of FFO by similar companies.

Funds available for distribution ("FAD") represents FFO plus recurring principal receipts from mortgage loans less lease commissions, recurring capital expenditures (excluding property acquisitions) and debt principal amortization. Net income computed in accordance with GAAP includes straight-lining of property rentals for rent escalations in the amounts of \$82,829, \$241,592 and \$367,078 for the years ended December 31, 2001, 2000 and 1999, respectively. FAD should not be considered an alternative to net income as a measure of the Company's financial performance or to cash flow from operating activities (computed in accordance with GAAP) as a measure of the Company's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of the Company's needs.

FFO, as calculated in accordance with the NAREIT definition, and FAD for the years ended December 31, 2001, 2000 and 1999 are summarized in the following table:

	YEAR ENDED DECEMBER 31, 2001	DEC
	-----	---
Income before minority interest	\$ 301,722	\$
Loss on impairment of property	2,500,000	
Gain on sale of real estate	--	
Depreciation and amortization of real property	5,281,788	
Amortization of insurance contract	--	
Depreciation and amortization from equity investments	243,130	
	-----	---
Funds From Operations ("FFO")	8,326,640	1
Amortization of deferred financing costs	760,549	
Principal payments received on mortgage loans	3,217,220	
Straight-lining of property rentals for rent escalations	(82,829)	
Improvements to real estate	(3,499,851)	(

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Principal repayments on notes payable	(325,006)	
Leasing commissions	(918,112)	
	-----	---
Funds Available for Distribution ("FAD")	\$ 7,478,611	\$
	=====	=====
Distributions to stockholders and minority interest	\$ 8,465,063	\$
	-----	---
FFO payout ratio	101.7%	
	=====	=====
Cash flows from:		
Operating activities	\$ 10,520,507	\$ 1
	=====	=====
Investing activities	\$ (1,718,776)	\$ (
	=====	=====
Financing activities	\$ (7,359,667)	\$ (
	=====	=====
Weighted average common shares outstanding	8,051,555	
	=====	=====
Weighted average common shares and OP Units outstanding	8,817,335	
	=====	=====

## RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments em-

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bedded in other contracts, and for hedging activities, and was effective for the Company beginning January 1, 2001. The Company has no derivative instruments at or during the year ended December 31, 2001, so implementation of this standard had no effect on the Company's financial statements.

In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (SFAS 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). These statements establish new standards for accounting and reporting for business combinations and for goodwill and intangible assets resulting from business combinations. SFAS 141 applies to all business combinations initiated after June 30, 2001; the Company is required to implement SFAS 142 on January 1, 2002. Implementation of these statements did not have a material impact on the Company's financial statements.

In June of 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (effective January 1, 2003) and, in August of 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets" (effective January 1, 2002). SFAS No. 143 requires the recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. SFAS No. 144 supercedes existing accounting literature dealing with impairment and disposal of long-lived assets, including discontinued operations. It addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of, and expands current reporting for discontinued operations to include disposals of a "component" of an entity that has been disposed of or is classified as held for sale. The

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impact of SFAS No. 144 will be to the extent that the Company disposes of property; it will be treated as discontinued operations according to NAREIT.

### FORWARD-LOOKING STATEMENTS

Certain statements made in this report may constitute "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. Such forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following: general economic and business conditions, which will, among other things, affect the demand for retail space or retail goods, availability and creditworthiness of prospective tenants, lease rents and the terms and availability of financing; adverse changes in the real estate markets including, among other things, competition with other companies; risks of real estate development and acquisition; governmental actions and initiatives; and environment/safety requirements.

### INFLATION

Inflation did not have a material effect on the Company's results for the periods presented.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The debt financing used to raise capital for the acquisition of the Company's investments exposes the Company to fluctuations in market interest rates. Market interest rates are highly sensitive to many factors, including governmental policies, domestic and international political considerations and other factors beyond the control of the Company.

Cash flows from the Company's investments do not fluctuate with changes in market interest rates. In addition, as of December 31, 2001, approximately 34.7% of the Company's total notes payable outstanding are either fixed rate or non-interest bearing, and so the payments on these instruments do not fluctuate with changes in market interest rates. In contrast, payments required under the Credit Facility vary based on market interest rates, primarily the 30 day Euro-contract rate. Thus, an increase in market interest rates would result in increased payments under the Credit Facility, without a corresponding increase in cash flows from the Company's investments in the same amounts. For example, based on the \$43,193,000 outstanding under the Credit Facility at December 31, 2001, the Company estimates that an increase of 1% in the 30 day Euro-contract rate would decrease the Company's annual net income by approximately \$432,000; a 2% increase in the 30 day Euro-contract rate would decrease annual net income by approximately \$864,000. For the same reasons, a decrease in market interest rates would generally benefit the Company, as a result of decreased payments under the Credit Facility without corresponding decreases in cash flows from the Company's investments. Various financial vehicles exist which would allow Company management to mitigate the impact of interest rate fluctuations on the Company's cash flows and earnings. On December 1, 1998, the Company entered into an interest rate swap agreement with a notional amount of \$10,000,000 at a fixed rate of 5.44%. This agreement expired on December 1, 2000. Management may engage in additional hedging strategies in the future, depending on management's analysis of the interest rate environment and the costs and risks of such strategies.



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### Item 8. Financial Statements and Supplementary Data.

#### (a) 1. Financial Statements

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Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Income for the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999

Notes to Consolidated Financial Statements

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#### INDEPENDENT AUDITORS' REPORT

To the Stockholders and  
Board of Directors of  
Aegis Realty, Inc.  
New York, New York

We have audited the accompanying consolidated balance sheets of Aegis Realty, Inc. and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedules listed in Item 14 Schedule III. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Aegis Realty, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole,

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present fairly, in all material respects, the information set forth therein.

DELOITTE & TOUCHE LLP  
New York, New York  
March 11, 2002

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## AEGIS REALTY, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2001	2000
ASSETS		
Real estate, net	\$171,356,539	\$175,156,729
Investment in partnerships	5,475,418	5,746,841
Mortgage loan receivable	--	3,170,322
Loans receivable from affiliates	2,289,470	2,312,543
Cash and cash equivalents	2,916,537	1,474,473
Accounts receivable-tenants, net of allowance for doubtful accounts of \$378,000 and \$383,000, respectively	3,005,333	3,215,665
Deferred costs, net	4,085,776	5,679,884
Other assets	908,995	937,486
	-----	-----
Total Assets	\$190,038,068	\$197,693,943
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes payable	\$ 66,147,599	\$ 64,972,605
Accounts payable and other liabilities	3,768,068	4,476,477
Distributions payable	2,116,471	2,115,590
	-----	-----
Total Liabilities	72,032,138	71,564,672
	-----	-----
Minority interest of unitholders in the Operating Partnership	6,234,566	6,941,884
	-----	-----
Commitments and Contingencies		
Stockholders' equity:		
Common stock; \$.01 par value; 50,000,000 shares authorized; 8,052,847 and issued 8,049,179 and outstanding in 2001 and 2000, respectively	80,528	80,491
Additional paid in capital	125,379,016	125,339,053
Distributions in excess of net income	(13,688,180)	(6,232,157)
	-----	-----
Total Stockholders' Equity	111,771,364	119,187,387
	-----	-----

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Total Liabilities and Stockholders' Equity	\$190,038,068	\$197,693,943
	=====	=====

See accompanying notes to consolidated financial statements.

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## AEGIS REALTY, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
Revenues:			
Rental income	\$19,983,396	\$19,956,353	\$19,680,116
Tenant reimbursements	4,970,870	4,674,235	4,682,075
Early lease termination payments	16,760	500,162	93,846
Income from equity investments	243,005	376,903	291,082
Interest income	767,703	561,693	482,442
Other	118,027	97,924	124,940
	-----	-----	-----
Total revenues	26,099,761	26,167,270	25,354,501
	-----	-----	-----
Expenses:			
Repairs and maintenance	2,025,686	2,097,007	1,910,194
Operating	1,355,095	1,409,018	1,397,782
Real estate taxes	2,439,193	2,391,257	2,436,047
Interest	4,428,429	4,950,058	4,489,556
Management fees	2,392,170	2,368,481	2,304,330
General and administrative	884,639	848,246	946,519
Depreciation and amortization	5,995,152	5,186,493	4,897,811
Terminated transaction costs	2,846,804	--	--
Loss on impairment of asset	2,500,000	--	--
Other	930,871	896,557	751,598
	-----	-----	-----
Total expenses	25,798,039	20,147,117	19,133,837
	-----	-----	-----
Income before gains on sale	301,722	6,020,153	6,220,664
Gain on sale of real estate	--	108,332	--
	-----	-----	-----
Income before minority interest	301,722	6,128,485	6,220,664
Minority interest in income of the Operating Partnership	(27,831)	(535,490)	(397,583)
	-----	-----	-----
Net income	\$ 273,891	\$ 5,592,995	\$ 5,823,081
	=====	=====	=====

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Net income per share:

Basic	\$ .03	\$ .69	\$ .72
	=====	=====	=====
Diluted	\$ .03	\$ .69	\$ .72
	=====	=====	=====

Weighted average shares outstanding:

Basic	8,051,555	8,048,894	8,046,574
	=====	=====	=====
Diluted	8,051,555	8,048,952	8,046,574
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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## AEGIS REALTY, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL	DISTRIBUTIONS	
	SHARES	AMOUNT	PAID-IN CAPITAL	IN EXCESS OF NET INCOME	
	-----	-----	-----	-----	-----
Balance at January 1, 1999	8,044,859	\$80,448	\$125,299,096	\$ (2,196,036)	\$12
Net income	--	--	--	5,823,081	
Issuance of shares of common stock	2,000	20	19,980	--	
Distributions	--	--	--	(7,724,985)	(
	-----	-----	-----	-----	-----
Balance at December 31, 1999	8,046,859	80,468	125,319,076	(4,097,940)	12
Net income	--	--	--	5,592,995	
Issuance of shares of common stock	2,320	23	19,977	--	
Distributions	--	--	--	(7,727,212)	(7
	-----	-----	-----	-----	-----
Balance at December 31, 2000	8,049,179	80,491	125,339,053	(6,232,157)	11
Net Income	--	--	--	273,891	
Issuance of shares of common stock	3,668	37	39,963	--	
Distributions	--	--	--	(7,729,914)	(7
	-----	-----	-----	-----	-----
Balance at December 31, 2001	8,052,847	\$80,528	\$125,379,016	\$ (13,688,180)	\$11
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

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## AEGIS REALTY, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income	\$ 273,891	\$ 5,592,995	\$ 5,823,081
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of real estate	--	(108,332)	--
Loss on impairment of asset	2,500,000	--	--
Depreciation and amortization	5,990,972	5,243,641	4,954,959
Minority interest in income of the Operating Partnership	27,831	535,490	397,583
Distributions from equity investments in excess of income	228,705	133,640	129,626
Terminated transaction costs	2,846,804	--	--
Leasing commissions and costs	(918,112)	(1,395,929)	(659,579)
Changes in operating assets and liabilities:			
Accounts receivable-tenants	214,918	(297,359)	(474,991)
Allowance for doubtful accounts	(4,587)	39,727	(40,146)
Other assets	(412,860)	463,833	(165,577)
Accounts payable and other liabilities	(227,055)	982,096	(397,033)
Net cash provided by operating activities	10,520,507	11,189,802	9,567,923
Cash flows from investing activities:			
Net proceeds from sale of real estate	--	154,409	--
Improvements to real estate	(3,499,851)	(6,198,584)	(1,308,093)
Acquisitions of real estate including acquisition expenses	--	(557,823)	(653,015)
Increase in deferred acquisition expenses	(1,459,217)	(1,289,599)	(45,038)
Repayments of loans receivable from affiliates	23,072	21,280	3,129
Loans made to affiliate	--	(255,937)	--
Principal payments received on mortgage loans	3,217,220	35,439	32,416
Net cash used in investing activities	(1,718,776)	(8,090,815)	(1,970,601)
Cash flows from financing activities:			
Repayments of notes payable	--	(4,845,474)	--
Periodic principal payments on notes payable	(325,006)	(296,865)	(538,401)
Proceeds from notes payable	1,500,000	10,875,000	1,500,000
Distributions paid to stockholders	(7,729,033)	(7,726,655)	(8,327,874)
Increase in deferred loan costs	(70,479)	(1,041,747)	(553,324)
Distributions paid to minority interest	(735,149)	(815,068)	(454,902)
Net cash used in financing activities	(7,359,667)	(3,850,809)	(8,374,501)

AEGIS REALTY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
Net increase/(decrease) in cash and cash equivalents	1,442,064	(751,822)	(777,179)
Cash and cash equivalents at the beginning of the year	1,474,473	2,226,295	3,003,474
Cash and cash equivalents at the end of the year	\$2,916,537	\$1,474,473	\$2,226,295
Supplemental information:			
Interest paid	\$4,288,167	\$4,950,059	\$4,841,223
Supplemental disclosure of noncash activities:			
Payable to directors liquidated through the issuance of shares of common stock	\$ 40,000	\$ 20,000	\$ 20,000
Reclassification of deferred acquisition expenses to real estate upon purchase			\$ 61,278
Repayment of purchase money notes to sellers through the issuance of units in the Operating Partnership			\$ 585,754
See accompanying notes to consolidated financial			

AEGIS REALTY, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 - General

Aegis Realty, Inc. ("Aegis" or the "Company") is a Maryland corporation that has qualified as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 as amended (the "Code"). The Company was formed to acquire, own, operate and renovate primarily supermarket-anchored neighborhood and community shopping centers. As of December 31, 2001, the Company owned a portfolio of 28 retail properties containing a total of approximately 3.0 million gross

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leaseable square feet and held partnership interests in two suburban garden apartment properties.

The Company was formed on October 1, 1997 as the result of the consolidation (the "Consolidation") of four publicly registered, non-listed limited partnerships, Summit Insured Equity L.P. ("Insured I"), Summit Insured Equity L.P. II ("Insured II"), Summit Preferred Equity L.P. and Eagle Insured, L.P. (the "Partnerships", and each individually a "Partnership"). One of the general partners of the Partnerships was an affiliate of Related Capital Company ("Related"), a nationwide, fully integrated real estate financial services firm. Pursuant to the Consolidation, the Company issued shares of its common stock, par value \$.01 per share (the "Common Stock") to all partners in the Partnerships in exchange for their interests in the Partnership based upon each partner's proportionate interest in the Common Stock issued to their Partnership in the Consolidation.

The Company is governed by a board of directors comprised of two independent directors and three directors who are affiliated with Related. The Company has engaged Related Aegis LP (the "Advisor"), a Delaware limited partnership and an affiliate of Related, to manage its day to day affairs.

The Company owns all of its assets directly or indirectly through Aegis Realty Operating Partnership, LP, a Delaware limited partnership (the "Operating Partnership" or "OP"), of which the Company is the sole general partner and holder of 91.31% of the units of partnership interest (the "OP Units") at December 31, 2001. At December 31, 2001, 5.54% of the OP Units are held by the sellers of three of the retail properties and 3.15% were held by affiliates of Related.

On December 21, 2000, the Company entered into a definitive acquisition agreement to acquire a portfolio of 19 shopping centers and several retail development opportunities (the "Acquisition Transaction") from P'OB. Montgomery & Company ("POB"). On August 7, 2001, the Company announced that it had terminated the Acquisition Transaction, by mutual consent with POB, for a fee of \$350,000. This fee, plus prior deferred expenses relating to the Acquisition Transaction of approximately \$2,227,000 have been included in the consolidated statement of operations as terminated transaction costs.

In light of the decision to terminate the Acquisition Transaction, the Company, at the direction of the Board of Trustees, has retained Robertson Stephens to assist in developing an appropriate marketing strategy for the potential sale of the Company or its assets. If acceptable values cannot be achieved, the Board of Trustees will then pursue alternative strategies with the goal of maximizing stockholder value. The Company has discontinued its pursuit of additional investments and is focusing on the continuation of active management, leasing and redevelopment of the property portfolio in order to maintain the value of its portfolio upon a sale.

### NOTE 2 - Summary of Significant Accounting Policies

#### a) Basis of Presentation

The books and records of the Company are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires the Advisor to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### b) Basis of Consolidation

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The consolidated financial statements include the accounts of the Company and its subsidiary partnerships. All intercompany accounts and transactions have been eliminated in consolidation.

### c) Real Estate

Real estate assets are recorded at the lower of cost or fair value, if impaired. Costs incurred for the acquisition, development, construction, and improvement of properties are capitalized. Buildings are depreciated on a straight-line basis over their estimated useful lives, generally 40 years. Maintenance and repairs are charged to expense as incurred. Renewals and betterments that significantly extend the useful life of a property are capitalized and amortized over their estimated useful lives. Tenant improvements are capitalized and amortized over the life of the lease. For redevelopment of existing operating properties, the net book value of the existing property under redevelopment plus the cost for the construction and improvements incurred in connection with the redevelopment are capitalized to the extent the capitalized costs of the property do not exceed the estimated fair value of the redeveloped property when completed. If the total cost of the redeveloped property, including the undepreciated net book value of the property carried forward, exceeds the estimated fair value of the redeveloped property, the excess is charged to expense. During 2001, the total amount of undepreciated book value carried forward on redeveloped properties totaled approximately \$1.8 million.

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### d) Investment in Partnerships

The Company accounts for its investment as a limited partner in partnerships, which own the multifamily properties, using the equity method of accounting because it exercises significant influence over, but does not control, these limited partnerships.

### e) Impairment

The Company reviews each of its property investments, including those held by the partnerships which own the multifamily properties, for possible impairment at least annually, and more frequently if circumstances warrant. Impairment of properties is determined to exist when estimated amounts recoverable through future operations on an undiscounted basis are below the properties' carrying value. If a property is determined to be impaired, it is written down to its estimated fair value.

At least annually, and more frequently if circumstances warrant, the Company evaluates the collectibility of both interest and principal of its mortgage loan receivable to determine whether it is impaired. A loan is considered to be impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is considered to be impaired, the amount of the loss accrual is determined by discounting the expected future cash flows at the loan's effective interest rate or, for practical purposes, from the estimated fair value of the collateral.

The determination of impairment is based not only upon future cash flows, which rely upon estimates and assumptions including expense growth, occupancy and rental rates, but also upon market capitalization and discount rates as well as other market indicators. Management believes that the estimates and assumptions used are appropriate in evaluating the carrying amount of the Company's properties and loan. However, changes in market conditions and circumstances may occur in the near term which would cause these estimates and assumptions to



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change, which, in turn, could cause the amounts ultimately realized upon the sale or other disposition of the investments to differ materially from their estimated fair value. Such changes may also require write-downs in future years. Amounts estimated to be recoverable from future operations and ultimate sales are greater than the carrying value of each property owned at December 31, 2001 and 2000. However, the carrying value of certain properties may be in excess of their fair values as of such dates. During 2001, one property became impaired due to the continued inability to replace the existing anchor tenants and attract smaller store tenants. The Company determined that the undiscounted future cash flows were less than the property's carrying value and accordingly wrote down the property to its estimated fair value, which resulted in a loss on impairment of \$2.5 million.

### f) Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and money market funds, and temporary investments in short-term instruments with original maturities equal to or less than three months.

### g) Deferred Loan Costs

Costs incurred in connection with the Company's debt have been capitalized and are being amortized over the life of the respective debt using the effective yield method.

### h) Deferred Leasing Commissions

Costs incurred in connection with the lease-up of vacant space and lease renewals have been capitalized and are being amortized over the term of the underlying leases.

Amortization related to the deferred costs described in (g) and (h) above is included in depreciation and amortization expense.

### i) Deferred Acquisition Expenses

Direct costs incurred in connection with the proposed purchase of retail properties are deferred. Upon acquisition of a property, the associated costs are capitalized as real estate. Direct costs incurred in connection with properties which are not acquired, and all indirect acquisition costs, are charged to operations.

### j) Revenue Recognition

Rental income includes amounts received and accrued from operating leases. The straight-line basis is used to recognize base rents under leases which provide for varying rents over the lease terms. Rentals based on a percentage of tenant sales over a specified threshold are accrued after the threshold is exceeded. Payments received from tenants to induce the Company to release the tenant from its lease obligation prior to expiration are recognized upon termination of the lease. Amounts due from tenants as reimbursements of common area maintenance, real estate taxes and insurance are accrued as the related expenses are incurred. Interest income on the mortgage loan receivable is accrued as it is earned.

### k) Income Taxes

The Company has qualified as a REIT under the Code. A REIT is generally not subject to federal income tax on that portion of its REIT taxable income

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("Taxable Income") which is distributed to its stockholders provided that at least 90% of Taxable Income is distributed and provided that such income meets certain other conditions. Accordingly, no provision for federal income taxes is required. The Company may be subject to state taxes in certain jurisdictions.

During 2001, the Company declared distributions of \$.96 per share. For federal income tax purposes, \$.40 and \$.56 per share of ordinary income and return of capital, respectively, was reported to stockholders for 2001.

### l) Comprehensive Income

Because the Company has no items of other comprehensive income, the Company's net income and comprehensive income are the same for all periods presented.

### m) Segment Information

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", requires enterprises to report certain financial and descriptive information about their reportable operating segments, and certain enterprise-wide disclosures regarding products and services, geographic areas and major customers. The Company is an investor in real estate related assets and operates in only one reportable segment. All of the Company's investments are, or are secured by, real estate properties located in the United States; accordingly, all of its revenues were derived from U.S. operations.

### n) Mortgage Loan Receivable

The Company accounts for its investments in mortgage loans and notes receivable under the provisions of Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS 114"). Under SFAS 114, a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. SFAS No. 114 requires lenders to measure impaired loans based on: (i) the present value of expected future cash flows discounted at the loans' effective interest rate; (ii) the loan's observable market price; or (iii) the fair value of the collateral if the loan is collateral-dependent. An allowance for loan losses is maintained if the measure of an impaired loan is less than its recorded investment. Adjustments to the allowance are made through corresponding charges or credits to the provision for loan losses.

Interest on mortgage loans and notes receivable is recognized on the accrual basis. Interest which was accrued but not received is reversed from income if deemed to be uncollectible.

### o) Fair Value of Financial Instruments

The Company has determined that the fair value of its financial instruments, including cash and cash equivalents, mortgage loan receivable, accounts receivable -- tenants and notes payable approximate their carrying values at December 31, 2001 and 2000.

### p) New Pronouncements

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 was implemented by the Company beginning on January 1, 2001. Because the Company does not utilize derivatives, implementation of this statement had no effect on the Company's financial statements.

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In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (SFAS 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). These statements establish new standards for accounting and reporting for business combinations and for goodwill and intangible assets resulting from business combinations. SFAS 141 applies to all business combinations initiated after June 30, 2001; the Company is required to implement SFAS 142 on January 1, 2002. Implementation of these statements did not have a material impact on the Company's financial statements.

In June of 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (effective January 1, 2003) and in August of 2001, SFAS No. 144, "Accounting for the Impairment of Disposal of Long Lived Assets" (effective January 1, 2002). SFAS No. 143 requires the recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. SFAS No. 144 supercedes existing accounting literature dealing with impairment and disposal of long-lived assets, including discontinued operations. It addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of, and expands current reporting for discontinued operations to include disposals of a "component" of an entity that has been disposed of or is classified as held for sale. Management believes the implementation of these standards will not have a material impact on the financial statements.

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### q) Reclassifications

Certain amounts in the 2000 and 1999 financial statements have been reclassified to conform to the 2001 presentation.

### NOTE 3 - Real Estate

The components of real estate are as follows:

	DECEMBER 31,	
	2001	2000
Land	\$ 42,041,873	\$ 40,267,037
Buildings and improvements	161,165,742	162,348,285
	-----	-----
	203,207,615	202,615,322
Less: Accumulated depreciation	(31,851,076)	(27,458,593)
	-----	-----
	\$171,356,539	\$175,156,729
	=====	=====

Amounts estimated to be recoverable from future operations and ultimate sales are greater than the carrying value of each property owned at December 31, 2001 and 2000. However, the carrying value of certain properties may be in excess of their fair values as of such dates.

During 2001, the Company determined that White Oaks Plaza had become impaired and accordingly wrote the property down to its estimated fair market value and incurred a loss on impairment of \$2,500,000 due to the fact the undiscounted

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future cash flow was less than the carrying value (see Note 2.e) -- Impairment).

During 2001, a portion of Mountain Park Plaza Shopping Center was demolished in order to construct new space for Publix. The unamortized amount of the portion of the building that was demolished, approximately \$1.8 million, was capitalized and will be included in the basis of the reconstructed facility.

On May 19, 2000, the Company acquired an out-parcel of developable land contiguous to the Forest Park Square property for \$500,000 plus acquisition costs of approximately \$32,360.

As part of the renewal of the lease for the anchor tenant at the Westbird property, the Company made \$2,140,000 in tenant improvements during 2000. The term of the new lease is 20 years with a minimum rental of \$246,000. The minimum annual rent under the old lease was \$103,000.

The acquisitions of Governor's Square, Southgate and Crossroad East, three properties with purchase prices of \$8,200,000, \$15,100,000 and \$4,800,000, respectively, were partially financed through the issuance of 94,726, 208,914 and 167,149 OP Units (subject to adjustment) valued at \$1,231,438, \$2,715,882 and \$2,172,937. These OP Units were convertible to shares of Common Stock on a one-to-one basis, subject to adjustment, beginning on the one year anniversary of their respective closing dates. The OP Units were issued at an agreed upon value of \$13 per OP Unit. If, as of the last trading day prior to the first anniversary of the closing date (the "Post-Closing Adjustment Date"), the "Average Price Per Share" (as defined) was less than \$13, the Company was obligated to issue additional OP Units to the respective sellers in the amount of the difference between (i) the quotient obtained by dividing the OP Unit value at \$13 per OP Unit by the Average Price Per Share as of the Post-Closing Adjustment Date and (ii) the number of OP Units issued on the closing date. An additional 28,187 OP Units were issued to the seller of Governor's Square on the Post-Closing Adjustment Date (May 28, 1999) based on an Average Price Per Share of \$10.01875. An additional 92,439 and 73,957 OP Units were issued to the sellers of Southgate and Crossroads East, respectively, on the Post-Closing Adjustment Date (December 9, 1999) based on an Average Price Per Share of \$9.0125.

None of the Company's investment properties accounted for 10% or more of the Company's total gross revenues for any of the three years in the period ended December 31, 2001.

During the years ended December 31, 2001, 2000 and 1999, the Kroger Company, which is a tenant at six shopping centers, accounted for approximately 12%, 11% and 12%, respectively, of the Company's total revenues.

Based on the carrying value at December 31, 2001, approximately 16% of the Company's investment properties are located in Ohio, 11% are located in Florida, and 11% are located in Virginia. No other states comprise more than 10% of the total carrying value.

The Company has been notified that K-Mart, which has filed for bankruptcy, intends to close its store located in the Centre Stage Shopping Center in Springfield, Tennessee. The store has approximately 86,479 square feet of gross leasable area and represents approximately \$397,000 in annualized base rent. The store is currently in operation and rental payments are current; however, the Company cannot currently assess how the closing of the store will affect 2002 operating results until more details are provided by K-Mart.

Insured II, an indirectly wholly-owned subsidiary of the Company, is the record owner of three of the retail properties. Insured II is the beneficiary of an insurance policy (the "Policy") from Continental Casualty Company ("CNA") which, in effect, insures that

the cumulative amount of cash available for distribution, from all sources, as determined in accordance with the Policy and related agreement together with the appraised values of the Retail Properties then owned by Insured II, will equal at least 100% of the aggregate original capital contributions to Insured II allocated to investment in properties on the day on which the last such Retail Property was acquired by Insured II. The Policy expired in May 2001. Insured I had been the beneficiary of a similar policy that expired in November 1999. No payments were received on either policy.

#### NOTE 4 - Deferred Costs

The components of deferred costs are as follows:

	DECEMBER 31,	
	2001	2000
Deferred loan costs	\$3,508,151	\$3,437,672
Deferred leasing commissions and costs	3,330,350	2,667,216
Deferred acquisition expenses	--	1,387,588
	6,838,501	7,492,476
Less: Accumulated amortization	(2,752,725)	(1,812,592)
	\$4,085,776	\$5,679,884

The decrease in deferred acquisition expenses in 2001 is due to the write-off of approximately \$2.8 million of various deferred acquisition expenses including the deferred acquisition expenses related to the termination of the Acquisition Transaction discussed in Note 1.

#### NOTE 5 - Investments in Partnerships

The Company owns a 98.99% limited partnership interest in the TCR-Pinehurst Limited Partnership ("Pinehurst"), which acquired and operates the Pinehurst apartment complex in Kansas City, Missouri. Under the original terms of this investment, the Company is entitled to a preferred equity return of 8.8% per annum on its initial investment of \$3,799,620, and 9.85% on a subsequent investment of \$1,949,805. These preferred equity returns are cumulative and non interest-bearing. The cumulative, unrecorded and undistributed preferred equity returns to the Company totaled \$1,880,466 and \$1,826,245 at December 31, 2001 and 2000, respectively. These preferred equity returns are payable from excess cash flow from operations or proceeds from a sale or refinancing of Pinehurst's rental property.

On August 26, 1998, the Company invested \$895,200 for a 40% interest as a limited partner in FAI Ltd. ("FAI"), the limited partnership which owns the Weatherly Walk Apartments located in Fayetteville, Georgia. This equity interest earns an annual preferred return of 10.5% on \$895,200, paid monthly, plus 40% of excess cash flow and sale or refinancing proceeds. As of December 31, 2001, the Company had not received approximately \$47,000 of the preferred returns due from

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FAI.

Amounts estimated to be recoverable from future operations or ultimate sales are greater than the carrying value of the Company's investments in partnerships at December 31, 2001.

## NOTE 6 - Mortgage Loan Receivable

As of December 31, 2000, the Company held a FHA mortgage and an equity loan secured by Woodgate Manor, an apartment complex located in Gainesville, Florida. The FHA mortgage, in the original amount of \$3,110,300, had a stated interest rate of 8.95% and matured January 1, 2024.

The equity loan, in the original amount of \$339,700, represented a non-interest bearing advance made to the developer for such items as initial operating deficit escrow requirements and HUD related contingencies such as working capital escrow and cash requirements.

On April 23, 2001, the owner of Woodgate Manor sold the property to a third party. The Company received approximately \$3.2 million from the borrower, which approximated the carrying value of the loans at the time of repayment.

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## NOTE 7 - Notes Payable

As of December 31, 2001 and 2000, the Company had notes payable as follows:

NOTEHOLDER	DATE OF NOTE/ MATURITY DATE	INTEREST RATE	MONTHLY PAYMENT OF PRINCIPAL AND INTEREST	OUTSTANDING BALANCE AT 12/31/01	OUTSTANDING BALANCE AT 12/31/00
-----	-----	-----	-----	-----	-----
(a)	12/29/97 12/29/03	(b)	Interest only	\$43,193,000	\$41,693,000 (c)
Heller Financial, Inc.	6/24/97 (e) 7/1/07	8.50%	\$19,992	2,496,829	2,523,267
Nomura Asset Capital Corporation	10/28/97 (f) 11/11/22	7.54%	\$33,130	3,689,580	3,800,498
Chase Bank	12/16/96 (g) 1/1/07	8.875%	\$51,717	6,226,054	6,290,934
Merrill Lynch	9/18/97 (h)	7.73%	\$79,509	10,542,136	10,664,906
Credit Corporation	10/1/07			-----	-----
				\$66,147,599	\$64,972,605
				=====	=====

(a) The Credit Facility is shared among Fleet Bank (28.57%), KeyBank National Association (28.57%), Citizens Bank of Rhode Island (28.57%) and Sovereign Bank (14.29%).

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In connection with the Credit Facility, the Company must comply with various financial covenants including maximum loan to value ratios, interest and fixed charge coverage ratios, and net worth requirements. In connection with the Company's covenant compliance certification required subsequent to the filing of the Company's second and third quarter 2001 10-Qs, the Company was in compliance with all but one of these covenants. The Company was not in compliance with a covenant requiring that aggregate distributions by the Company during any consecutive four quarters not exceed ninety percent of the Company's funds from operations ("FFO") for such periods. Unlike the covenant provisions based on adjusted net income, under the covenant in question, the Company's FFO is not adjusted for extraordinary or nonrecurring items. In the second, third and fourth quarters of 2001, FFO was significantly reduced by nonrecurring expenses related to the termination of the POB transaction (Note 1). The Company received a waiver on this covenant from each of the syndicate banks of the Credit Facility for each of the quarters' of non-compliance.

(b) The interest rate under the Credit Facility can float 1/2% under Fleet Bank's base rate or can be fixed in 30, 60, 90 and 180 day periods at various spreads over the indicated Euro-contract, ranging from 1.75% to 2.125% depending on the Company's ratio of total debt to total assets. The Company has currently elected the 30 day rate which was 1.94% at December 31, 2001.

(c) Outstanding balance of an \$80 million senior revolving credit facility ("Credit Facility").

(d) The Credit Facility was collateralized at December 31, 2001 by nineteen Retail Properties and one investment in a partnership with carrying values of \$108,387,680 and \$4,844,599, respectively. In addition, the obligation under the Credit Facility is guaranteed by the Company, Summit Insured I, Summit Insured II (two of the Company's subsidiaries) and TCR-Pinehurst Limited Partnership (one of the two partnerships in which the Company has invested).

(e) Note was assumed upon purchase by the Company on March 31, 1998 of the property collateralizing the note.

(f) Note was assumed upon purchase by the Company on April 22, 1998 of the property collateralizing the note.

(g) Note was assumed upon purchase by the Company on November 24, 1998 of the property collateralizing the note.

(h) Note was assumed upon purchase by the Company on December 9, 1998 of the property collateralizing the note .

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On December 1, 1998, the Company entered into an interest rate swap agreement with a notional amount of \$10,000,000, intended to reduce the impact of changes in interest rates on the Credit Facility. This agreement effectively changed the Company's interest rate on \$10,000,000 of the Credit Facility debt to a fixed rate of 5.44% and matured on December 1, 2000. The Company accounted for the net cash settlements under this swap agreement as adjustments to the interest expense on the Credit Facility.

Annual principal payment requirements as of December 31, 2001 for each of the next five fiscal years and thereafter are as follows:

YEAR ENDING  
-----

AMOUNT  
-----

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2002	\$ 349,726
2003	43,571,907*
2004	407,394
2005	444,489
2006	481,587
Thereafter	20,892,496
	-----
	\$66,147,599
	=====

\*Includes the maturity of the Credit Facility.

The Company has determined that the carrying value of the notes payable approximates their fair value at December 31, 2001 and 2000, either because the interest rate on such notes fluctuates according to a market index, or because the fixed rate notes bear interest at rates comparable to market rates for similar instruments.

## NOTE 8 - Related Party Transactions

Pursuant to the Advisory Agreement, the Advisor receives (i) acquisition fees equal to 3.75% of the acquisition prices of properties acquired; (ii) mortgage selection fees based on the principal amount of mortgage loans funded; (iii) asset management fees equal to .375% of the total invested assets of the Company; (iv) a liquidation fee based on the gross sales price of the assets sold by the Company in connection with a liquidation of the Company's assets; and (v) reimbursement of certain administrative costs incurred by the Advisor on behalf of the Company.

The original term of the Advisory Agreement terminated on October 1, 2001. Thereafter, the Advisory Agreement is renewable annually by the Company and the OP, subject to the majority approval of the Company's Board of Directors and the OP. On September 13, 2001, the Advisor, OP and the Company executed an amendment to the original Advisor Agreement which extended the term for a one year period. The Advisory Agreement cannot be terminated by the Company, other than for gross negligence or willful misconduct of the Advisor and by a majority vote of the Company's independent directors. The Advisory Agreement may be terminated without cause by the Advisor at any time.

The Company's Retail Properties are managed by RCC Property Advisors (the "Property Manager"), an affiliate of the Advisor, for a fee equal to 4.5% of the gross rental receipts from the retail properties. The Property Manager also receives standard leasing commissions for space leased to new tenants and for lease renewals and is reimbursed for certain expenses.

The costs incurred to related parties for the years ended December 31, 2001 and 2000 and 1999 were as follows:

	2001
	-----
Acquisition fees	\$ --
Expense reimbursement	289,506
Property management fees	1,138,054
Leasing commissions and costs	727,423
Asset management fee	771,358
	-----



\$2,926,341  
=====

On December 9, 1998, in connection with the acquisition of Southgate and Crossroads East, the Company made loans (the "OP Unit Loans") totaling \$2,081,015 to Standard Investment Company ("SIC"), a partner in the partnerships (unaffiliated with the Advisor) which owned the two properties. The loans were originally secured by 163,517 OP units issued to SIC in exchange for its partnership interests in the partnerships which owned the properties and also by a guarantee from the principals of SIC for 25% of the total loan amounts. On January 4, 2000, in connection with the repayment of seller notes payable (see Note 7(i)), an additional 101,518 OP units were issued, the OP Unit Loans were increased by \$255,937 and the interest rate was increased from 7.613% to 10.03%.

The OP Unit Loans mature on the earlier of December 9, 2015 or the sale date of the underlying properties. Interest and principal are payable only to the extent of distributions with respect to the OP Units. Such distributions will be retained by the Company until all accrued interest and the outstanding balances of the loans are repaid. As of December 31, 2001 and 2000, the balances of

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these OP Unit Loans totaled \$2,289,470 and \$2,312,543, respectively, and are shown as Loans Receivable from Affiliates on the consolidated balance sheets.

The amounts owed or due to the advisor and affiliates at December 31, 2001 and 2000, were \$441,351 and (\$47,521) respectively; these amounts are included in other assets.

The OP units have certain rights with respect to the sale, transfer or other disposition of respective properties contributed to the Company in return for such OP units. Upon sale, transfer or other disposition of such properties within a designated restricted period, other than an exchange or other transaction which does not cause an OP unitholder to recognize income or gain for federal income tax purposes, the Company is required to pay an amount equal to their tax obligation payable. The Company estimates that may be required upon a restricted sale of all subject properties, to affiliates of the Company, would range from approximately \$1.2 million to \$1.6 million, assuming effective tax rates ranging from 35% to 40%, respectively.

#### NOTE 9 - Earnings Per Share

Basic net income per share in the amount of \$.03, \$.69 and \$.72 for the years ended December 31, 2001, 2000 and 1999, respectively, equals net income for the periods (\$273,891, \$5,592,995 and \$5,823,081, respectively), divided by the weighted average number of shares outstanding for the periods (8,051,555, 8,048,894 and 8,046,574, respectively).

Diluted net income per share in the amount of \$.03, \$.69 and \$.72 for the years ended December 31, 2001, 2000 and 1999, respectively, equals net income for the periods, divided by the weighted average number of diluted shares outstanding for the periods (8,051,555, 8,048,952 and 8,046,574, respectively). For the year ended December 31, 2001, the stock options were potentially antidilutive by approximately 3,000 shares, so were not included in the calculation of weighted average diluted shares.

There is no difference between basic and diluted net income per share with respect to the conversion of the minority interests' OP Units outstanding at December 31, 2001, 2000 and 1999 into an additional 765,780, 765,780 and 777,213

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shares, respectively, of Common Stock because the earnings of an OP Unit are equivalent to the earnings of a share of Common Stock.

### NOTE 10 - Leases

Future minimum base rentals due from tenants under non-cancelable operating leases as of December 31, 2001 are as follows:

YEAR ENDING DECEMBER 31 -----	AMOUNT -----
2002	\$ 19,266,000
2003	17,544,000
2004	15,263,000
2005	13,167,000
2006	10,978,000
Thereafter	40,963,000
	-----
Total	\$117,181,000 =====

Certain leases require the lessees to reimburse the Company for real estate taxes, insurance costs and certain other reimbursable expenses.

All 28 retail properties have certain tenants with leases that require payment of percentage rent. Percentage rent is an amount paid by the tenant which represents a portion of its sales over a specified threshold amount as called for in the lease. Percentage rent received during the years ended December 31, 2001, 2000 and 1999 was approximately \$126,000, \$328,000 and \$183,000, respectively.

### NOTE 11 - Common Stock

The Company has adopted an incentive stock option plan (the "Incentive Stock Option Plan"), the purpose of which is to (i) attract and retain qualified persons as directors and officers and (ii) to incentivize and more closely align the financial interests of the Advisor and its affiliates and their respective employees and officers with the interests of the stockholders by providing the Advisor and its affiliates with substantial financial interest in the Company's success. The Compensation Committee of the Company's Board of Directors administers the Incentive Stock Option Plan. Pursuant to the Incentive Stock Option Plan, if the Company's distributions per share of Common Stock in the immediately preceding calendar year exceed \$0.9869 per share, the Compensation Committee has the authority to issue options to purchase, in the aggregate, that number of shares of Common Stock which does not exceed three percent of the shares outstanding as of December 31 of the immediately preceding calendar year (or in the initial year, as of October 1, 1997). Any options not granted in a given year are carried over and become available to be granted in subsequent years. The maximum number of shares that can be issued over the life of the Incentive Stock Option Plan is 805,073.

All options granted will have an exercise price equal to or greater than the fair market value of the shares of Common Stock on the date of the grant. The maximum option term is ten years from the date of grant. All stock options granted pursuant to the Incen-

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tive Stock Option Plan may vest immediately upon issuance or may vest later, as determined by the Compensation Committee. The Company's distributions per share of Common Stock for the years ended December 31, 1999 and 1997 did not exceed \$.9869 per share. In 1998, the Company distributed \$1.035 per share of Common Stock (\$0.96 from continuing operations and a \$0.075 special capital gains distribution), thus enabling the Compensation Committee, at their discretion, to issue up to 241,522 options.

On August 2, 2001, the Board of Directors, including the members of the compensation committee, approved the grant of options to acquire 241,552 shares of common stock to employees and affiliates and the Advisor. The exercise price of the option is \$10.57. The shares underlying the options have been placed in a trust. Any dividends or other distributions attributed to the shares will be paid into the trust. The accumulative dividends will earn interest which will also be accumulated.

The options will become vested and exercisable on the earlier of August 2, 2004, or thirty days before the final liquidation date of the Company (as determined by the Board of Directors based on a reasonable expectation of the date on which the Company's stockholders will receive a final distribution liquidating their shares). If the options become exercisable on August 2, 2004, they shall remain exercisable until August 2, 2011. If the options become exercisable due to the earlier liquidation of the Company, they must be exercised before the final liquidation date; if not exercised by such date, the options will automatically terminate on that date. The weighted average grant date fair value of the options was \$128,007. At December 31, 2001, none of the options were exercisable, nor had any been exercised.

Through calendar year 1999, each independent director was entitled to receive annual compensation for serving as a director in the aggregate amount of \$15,000 payable in cash (maximum of \$5,000 per year) and/or shares of Common Stock valued based on the fair market value at the date of issuance. Beginning in calendar year 2000, the annual compensation for each independent director was increased from \$15,000 to \$17,500 and the maximum payable in cash was increased from \$5,000 to \$7,500. In addition, each independent director received \$7,520 in cash and stock valued at \$10,000 as compensation for serving on the special committee of the Board of Directors in connection with the Acquisition Transaction. As of December 31, 2001 and 2000, 4,210 and 2,376 shares, respectively, having an aggregate value at the date of issuance of \$42,500 and \$22,500, respectively, have been issued to each of the Company's two independent directors as compensation for their services. An additional 892 shares with an aggregate value of \$10,000 were issued to each independent Director in January, 2002.

On January 29, 1999, the Company adopted a stockholder rights plan (the "Stockholder Rights Plan"). Terms of the Stockholder Rights Plan provide for a distribution to common stockholders of record at the close of business on February 16, 1999 of one Right for each outstanding share of Common Stock of the Company. Subject to limited exceptions, the Rights will be exercisable if a person or group acquires 15% or more of the Company's Common Stock or announces a tender offer for 15% or more of the Common Stock. Depending on the circumstances, the effect of the exercise of the Rights will be to permit each holder of a Right to either purchase stock in the Company or stock of the buyer, at a substantial discount, and, in so doing, materially dilute the level of ownership of the buyer in the Company. The Company will be entitled to redeem the Rights at \$.01 per Right at any time before a person has acquired 15% or more of the outstanding Common Stock. The Stockholder Rights Plan will expire on February 16, 2009.

On October 9, 1998, the Board of Directors authorized the implementation of a stock repurchase plan, enabling the Company to repurchase, from time to time, up

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to 500,000 shares of its Common Stock. The repurchases will be made in the open market and the timing will be dependent on the availability of shares and other market conditions. As of both December 31, 2001 and 2000, the Company had acquired 6,300 shares of its Common Stock for an aggregate purchase price of \$58,579 (including commissions and service charges). Repurchased shares are accounted for as retired.

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## NOTE 12 - Selected Quarterly Financial Data (unaudited)

	2001 QUARTER ENDED		
	MARCH 31	JUNE 30	SEPTEMBER 30
Revenues:			
Rental income	\$ 4,996,183	\$ 4,991,722	\$ 4,991,722
Tenant reimbursements	1,251,550	1,171,234	1,171,234
Early lease termination	14,000	2,510	2,510
Income from equity investments	96,349	62,670	62,670
Interest income	129,511	460,571	460,571
Other	28,398	39,931	39,931
Total revenues	6,515,991	6,728,638	6,728,638
Expenses:			
Repairs and maintenance	404,125	414,005	414,005
Operating	346,494	324,749	324,749
Real estate taxes	619,946	625,777	625,777
Interest	1,273,561	1,154,940	1,154,940
Management fees	630,393	589,230	589,230
General and administrative	252,232	188,340	188,340
Depreciation and amortization	1,453,112	1,516,503	1,516,503
Terminated transaction costs	0	2,326,351	2,326,351
Loss on impairment of asset			
Other	246,345	250,634	250,634
Total expenses	5,226,208	7,390,529	7,390,529
Income (loss) before minority interest	1,289,783	(661,891)	(661,891)
Minority interest in income of the Operating Partnership	(111,744)	57,508	57,508
Net income (loss)	\$ 1,178,039	\$ (604,383)	\$ (604,383)
Net income (loss) per share:			
Basic	\$ 0.15	\$ (0.08)	\$ (0.08)

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Diluted	\$ 0.15	\$ (0.08)	\$
	=====	=====	=====
	2000 QUARTER ENDED		
	MARCH 31	JUNE 30	SEPTEMBER 30
	-----	-----	-----
Revenues:			
Rental income	\$5,187,635	\$4,975,979	\$5,187,635
Tenant reimbursements	1,150,940	1,107,932	1,150,940
Income from equity investments	101,592	98,327	101,592
Interest income	133,679	151,311	133,679
Other	185,913	61,125	185,913
	-----	-----	-----
Total revenues	6,759,759	6,394,674	6,759,759
	-----	-----	-----
Expenses:			
Repairs and maintenance	505,043	454,674	505,043
Operating	330,589	330,342	330,589
Real estate taxes	612,901	589,348	612,901
Interest	1,186,856	1,202,234	1,186,856
Management fees	600,667	600,989	600,667
General and administrative	198,616	243,166	198,616
Depreciation and amortization	1,215,844	1,257,981	1,215,844
Other	296,194	199,848	296,194
	-----	-----	-----
Total expenses	4,946,710	4,878,582	4,946,710
	-----	-----	-----

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	2000 QUARTER ENDED		
	MARCH 31	JUNE 30	SEPTEMBER 30
	-----	-----	-----
Income before gain on sale of real estate and minority interest	1,813,049	1,516,092	1,813,049
Gain on sale of real estate	0	0	0
	-----	-----	-----
Income before minority interest	1,813,049	1,516,092	1,813,049
Minority interest in income of the Operating Partnership	(159,856)	(132,462)	(159,856)
	-----	-----	-----
Net income	\$1,653,193	\$1,383,630	\$1,653,193
	=====	=====	=====

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Net income per share:

Basic	\$ .21	\$ .17	\$
	=====	=====	
Diluted	\$ .21	\$ .17	\$
	=====	=====	

## NOTE 13 - Commitments and Contingencies

OP Units, aggregating 718,944, have certain rights with respect to the sale, transfer or other disposition of respective properties contributed to the Company in return for such OP Units. Upon sale, transfer or other disposition of such properties within a designated restricted period, other than an exchange or other transaction which does not cause an OP Unitholder to recognize income or gain for federal income tax purposes (a "Restricted Sale"), the Company is required to pay an amount equal to their tax obligation payable, including the amount of taxes resulting from receipt of such payment, as a result of such event.

OP Units, aggregating 596,031, related to the Southgate and the Crossroad properties have a restricted period through December 10, 2008. OP Units, aggregating 122,913, related to the Governor's Square property have a restricted period through May 28, 2003.

The amount the Company may be required to pay upon a Restricted Sale is dependent on the OP Unitholder's tax-basis capital account, effective federal tax rate and entity structure at the time a Restricted Sale occurs. The Company estimates that the additional payment required upon a Restricted Sale of all subject properties would range from \$4.8 million to \$5.7 million, assuming effective tax rates ranging from 35% to 40%, respectively.

On or about February 8, 2001, a complaint was filed in the New York Supreme Court, County of New York, against the Advisor. Also individually named in the suit were Messrs. Boesky, Hirmes, Ross, Brenner, Allen and Fisch, each of whom is either a director of Aegis or the Advisor. Aegis was also named as a nominal defendant. The action is entitled PAUL V. THE RELATED COMPANIES L.P., ET AL., Index No. 01-600669. On or about March 23, 2001, a second action, entitled SCHNIPPER V. AEGIS REALTY, INC., ET AL., Case No. 219736-V, was filed in the Circuit Court for Montgomery County, Maryland against Aegis and each of Aegis's five directors (Messrs. Boesky, Brenner, Hirmes, Allen and Fisch). On or about April 2, 2001, a third action, entitled OPPORTUNITY PARTNERS, L.P. V. STUART J. BOESKY, ET AL., Civ. No. 24-C-01-001579, was filed in the Circuit Court for Baltimore County, Maryland against, among others, Aegis, each of its five directors, and the Advisors. Each suit was purportedly a class and derivative action in connection with the Acquisition Transaction. On August 27, 2001, the Company announced that it had terminated the Acquisition Transaction by mutual consent with POB. As of October 29, 2001 each of the three lawsuits had been dismissed without prejudice. No money was paid by any of the defendants to any plaintiff or any plaintiff's attorney in connection with their dismissals.

The Company is subject to routine litigation and administrative proceedings arising in the ordinary course of business. Management does not believe that such matters will have a material adverse impact on the Company's financial position, results of operations or cash flows.

A current or previous owner or operator of real property may be legally liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such liability may exist whether or not the owner or operator knew of, or was responsible for, such hazardous or toxic substances. In

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addition, the presence of hazardous or toxic substances may adversely affect the owner's ability to borrow funds using such real property as collateral. Certain environmental laws impose liability for release of asbestos-containing materials ("ACMs") into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with ACMs. In connection with the ownership (direct or indirect), operation, management and development of real properties, the Company may be liable for removal or remediation costs, as well as certain other potential costs which could relate to such hazardous or toxic substances or ACMs (including governmental fines and injuries to persons and property). To date, the Company has not incurred any costs of removal or remediations of such hazardous or toxic substances. However, the presence, with or without the Company's knowledge, of hazardous or toxic substances at any property held or operated by the Company could have an adverse effect on the Company's business, operating results and financial condition.

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Phase I Environmental Site Assessments have been undertaken on all of the Company's properties. In certain cases, additional Phase II site investigations have also been undertaken where deemed appropriate. Based on these reports, no on-site hazardous chemicals or petroleum products were detected or found to exist in the soil or in the groundwater at those properties which would result in action by state environmental agencies and which would require additional investigation and/or remediation of the Mountain Park Plaza property. In February 1998, a Phase II investigation determined that there were detectable levels of certain hazardous materials above threshold levels which are ascertained by the Georgia State Department of Natural Resources Environmental Protection Division ("GAEPD"). A subsequent re-sampling indicated that no hazardous materials remain detectable above the threshold levels which are ascertained by GAEPD to require remediation, and management has installed wells on the site to monitor ongoing levels of hazardous materials in the ground water pursuant to GAEPD policy.

### NOTE 14 - Subsequent Events

The Company has been notified that K-mart, which has declared bankruptcy, intends to close its store located in the Centre Stage Shopping Center in Springfield, Tennessee. The store has approximately 86,479 square feet of gross leasable area and represents approximately \$397,000 in annualized base rent. The store is currently in operation and rental payments are current; however, the Company cannot currently assess how the closing of the store will affect 2002 operating results until more details are provided by K-Mart.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

## PART III

Item 10. Directors and Executive Officers of the Company.

Incorporated by reference to Aegis' definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Item 11. Executive Compensation.

Incorporated by reference to Aegis' definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

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Item 12. Security Ownership of Certain Beneficial Owners and Management.

Incorporated by reference to Aegis' definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 13. Certain Relationships and Related Transactions.

Incorporated by reference to Aegis' definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

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### PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. FINANCIAL STATEMENTS

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Income for the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Changes in Stockholders' Equity/Partners' Capital (Deficit) ended December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and

Notes to Consolidated Financial Statements

(a) 2. FINANCIAL STATEMENT SCHEDULES

Schedule II - Valuation and Qualifying Accounts for the three years ended December 31,

Schedule III - Real Estate and Accumulated Depreciation and Notes to Schedule at Decem

All other schedules have been omitted because they are not required or because the required information is contained in the financial statements or notes hereto.

(a) 3. EXHIBITS

(3.1A) Articles of Incorporation dated as of August 13, 1996 (incorporated by reference to the Company's Registration Statement on Form 10, File No. 001-13239)

(3.1B) Amended Articles of Incorporation dated as of September 26, 1996 (incorporated by reference to the Company's Registration Statement on Form 10, File No. 001-13239)

(3.1C) Articles of Amendment and Restatement of Articles of Incorporation dated as of October 1, 1997 (incorporated by reference to the Company's Registration Statement on Form 10, File No. 001-13239)



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- (3.1D) Certificate of Correction dated as of October 22, 1997 (incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on March 19, 1998)
- (3.2) Bylaws (incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on March 19, 1998)
- (4.1) Specimen Copy of Stock Certificate for shares of the Company's Common Stock (incorporated by reference to the Company's Amendment No. 1 on Form 10/A to the Company's Registration Statement on Form 10, File No. 001-13239)
- (10A) Continental Casualty Company Insurance Policy issued to the Company (incorporated by reference to Exhibit 10(C) to the Company's Registration Statement on Form S-11, File No. 33-8755, as amended)

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- (10B) Indemnity Agreement among Continental Casualty Company, the Company and the General Partners (incorporated by reference to Exhibit 10(D) to the Company's Registration Statement on Form S-11, File No. 33-8755, as amended)
- (10C) Secured Promissory Note between Principal Mutual Life Insurance Company and Insured II dated December 11, 1992 (incorporated by reference to Exhibit 10F to Insured II's Annual Report on Form 10-K for the year ended December 31, 1992)
- (10D) Form of Purchase and Sale Agreement pertaining to Summit Preferred's acquisition of Preferred Equity Investments (incorporated herein by reference to exhibit 10C to Summit Preferred's S-11 Registration Statement)
- (10E) Form of Amended and Restated Agreement of Limited Partnership of Operating Partnerships (incorporated herein by reference to Exhibit 10B to Summit Preferred's S-11 Registration Statement)
- (10F) Mortgage Note, dated June 10, 1988, with respect to Cross Creek Apartments in Charlotte, North Carolina, in the principal amount of \$17,494,100 (incorporated by reference to Exhibit 10(b) in Eagle's Current Report on Form 8-K dated June 15, 1988)
- (10G) Equity Loan Note, dated June 10, 1988, with respect to Cross Creek Apartments in Charlotte, North Carolina, in the principal amount of \$1,783,900 (incorporated by reference to Exhibit 10(c) in Eagle's Current Report on Form 8-K dated June 15, 1988)
- (10H) Subordinated Loan Note, dated June 10, 1988, with respect to Cross Creek Apartments in Charlotte, North Carolina (incorporated by reference to Exhibit 10(d) in Eagle's Current Report on Form 8-K dated June 15, 1988)
- (10I) Mortgage Note, dated August 18, 1988, with respect to Weatherly Walk Apartments in Fayetteville, Georgia, in the principal amount of

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\$7,772,500 (incorporated by reference to Exhibit 10(e) in Eagle's Current Report on Form 8-K dated August 19, 1988)

- (10J) Equity Loan Note, dated August 18, 1988, with respect to Weatherly Walk Apartments in Fayetteville, Georgia, in the principal amount of \$895,200 (incorporated by reference to Exhibit 10(f) in Eagle's Current Report on Form 8-K dated August 19, 1988)
- (10K) Subordinated Loan Note, dated August 18, 1988, with respect to Weatherly Walk Apartments in Fayetteville, Georgia (incorporated by reference to Exhibit 10(g) in Eagle's Current Report on Form 8-K dated August 19, 1988)
- (10L) Mortgage Note, dated December 12, 1988, with respect to Woodgate Manor in Gainesville, Florida, in the principal amount of \$3,110,300 (incorporated by reference to Exhibit 10(h) in Eagle's Current Report on Form 8-K dated December 12, 1988)
- (10M) Equity Loan Note, dated December 12, 1988, with respect to Woodgate Manor in Gainesville, Florida, in the principal amount of \$339,700 (incorporated by reference to Exhibit 10(i) in Eagle's Current Report on Form 8-K dated December 12, 1988)
- (10N) Subordinated Promissory Note, dated December 12, 1988, with respect to Woodgate Manor in Gainesville, Florida (incorporated by reference to Exhibit 10(j) in Eagle's Current Report on Form 8-K dated December 12, 1988)

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- (10O) Advisory Agreement dated as of October 1, 1997, between the Company, Aegis Realty Operating Partnership, LP (the "OP") and Related Aegis LP (the "Advisor") (incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on March 19, 1998)
- (10P) Agreement and Plan of Consolidation dated as of October 1, 1997, by and among the Company, the OP, Aegis Realty Holding Partnership, LP ("Aegis Holding"), AOP Merger Sub I, Inc. ("AOP Sub I"), AOP Merger Sub II, Inc. ("AOP Sub II"), Summit Insured Equity L.P. ("Insured I"), Summit Insured Equity II L.P. ("Insured II"), Summit Preferred Equity L.P. ("Summit Preferred"), Eagle Insured L.P. ("Eagle"), the Advisor, Related Insured Equity Associates, Inc. ("Related GP I"), RIDC II, L.P. ("Related GP II"), Related Equity Funding, Inc. ("Related GP III"), Partnership Monitoring Corporation ("PMC"), Related Federal Insured, L.P. ("Related GP IV"), Related Insured BUC\$ Associates, Inc., as assignor limited partner of Insured I and Insured II ("Assignor LP I/II"), Related BUC\$ Associates, Inc. ("Assignor LP III") and Related FI BUC\$, Inc. ("Assignor LP IV") (incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on March 19, 1998)
- (10Q) Incentive Share Option Plan (incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on

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March 19, 1998)

- (10R) Omnibus Assignment Agreement dated as of October 1, 1997, by and among the Company, the OP, Aegis Holding, AOP Sub I, AOP Sub II, Insured I, Insured II, Summit Preferred, Eagle, the Advisor, Related GP I, Related GP II, Related GP III, PMC, Assignor LP I/II, Assignor LP III and Assignor LP IV (incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on March 19, 1998)
- (10S) Revolving Credit Agreement dated as of December 29, 1997 by and between the OP, as borrower and BankBoston, N.A. for itself and as Agent (incorporated by reference to the Company's Current Reports on Form 8-K, filed with the Commission on January 9, 1998)
- (10T) Management Agreement between the Company, Insured I, Insured II, the OP and the Property Manager dated October 1, 1997 (incorporated by reference to Exhibit 10Z in the Company's Annual Report on Form 10-K for the period ended December 31, 1997)
- (10U) Amendment No.1 dated as of September 13, 2001 to the Advisory Agreement dated as of October 1, 1999, between the Company, Aegis Realty Operating Partnership L.P. (the "OP") and Related Aegis L.P. ("the Advisor") (incorporated by reference to Exhibit 99.3 to the Company's Current Report of Form 10Q, filed with the Commission on November 14, 2001)
- 21 List of Subsidiaries (filed herewith)
- (b) Reports On Form 8-K  
-----  
No reports on Form 8-K were filed during the current year.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AEGIS REALTY, INC.  
(Company)

Date: March 29, 2002

By: \_\_\_\_\_

Stuart J. Boesky  
Director, Chairman of the Board,  
President and Chief Executive Officer

Date: March 29, 2002

By: \_\_\_\_\_

Michael I. Wirth  
Chief Financial Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the Company

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and in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
----- Stuart J. Boesky	Director, Chairman of the Board, President and Chief Executive Officer	March 29, 2002
----- Michael J. Brenner	Director	March 29, 2002
----- Alan P. Hirmes	Director and Senior Vice President	March 29, 2002
----- Peter T. Allen	Director	March 29, 2002
----- Arthur P. Fisch	Director	March 29, 2002
----- Michael I. Wirth	Senior Vice President and Chief Financial Officer	March 29, 2002
----- Gary J. Parkinson	Treasurer and Controller	March 29, 2002

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AEGIS REALTY, INC.  
(Company)

Date: March 29, 2002

By: /s/ Stuart J. Boesky

-----  
Stuart J. Boesky  
Director, Chairman of the Board,  
President and Chief Executive Officer

Date: March 29, 2002

By: /s/ Michael I. Wirth

-----  
Michael I. Wirth  
Chief Financial Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the Company and in the capacities and on the dates indicated:

SIGNATURE -----	TITLE -----	DATE -----
/s/ Stuart J. Boesky ----- Stuart J. Boesky	Director, Chairman of the Board, President and Chief Executive Officer	March 29, 2002
/s/ Michael J. Brenner ----- Michael J. Brenner	Director	March 29, 2002
/s/ Alan P. Hirmes ----- Alan P. Hirmes	Director and Senior Vice President	March 29, 2002
/s/ Peter T. Allen ----- Peter T. Allen	Director	March 29, 2002
/s/ Arthur P. Fisch ----- Arthur P. Fisch	Director	March 29, 2002
/s/ Michael I. Wirth ----- Michael I. Wirth	Senior Vice President and Chief Financial Officer	March 29, 2002
/s/ Gary J. Parkinson ----- Gary J. Parkinson	Treasurer and Controller	March 29, 2002

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## AEGIS REALTY, INC. AND SUBSIDIARIES

### SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

YEAR ENDED DECEMBER 31 -----	NAME -----	BALANCE AT BEGINNING OF PERIOD* -----	ADDITIONS DURING YEAR* -----	DEDUCTION- WRITE-OFFS* -----	BALANCE END OF PERIOD -----
2001	Allowance for Doubtful Accounts	\$383,000	\$414,000	\$ (418,000)	\$378,000
2000	Allowance for Doubtful Accounts	\$343,000	\$360,000	\$ (320,000)	\$383,000

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1999	Allowance for Doubtful Accounts	\$383,000	\$384,000	\$ (424,000)	\$343,000
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## AEGIS REALTY, INC. ITEM 14, SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION DECEMBER 31, 2001

		INITIAL COST TO PARTNERSHIP (F)		COST CAPITALIZED SUBSEQUENT TO ACQUISITION
	ENCUM- BRANCES	LAND	BUILDINGS AND IMPROVEMENTS	IMPROVEMENTS
Shopping Centers:				
Cactus Village Glendale, AZ	\$ 0	\$ 2,093,532	\$ 4,631,948	\$ 33,517
Hickory Plaza Nashville, TN	(H)	1,288,328	3,931,633	18,291
Highland Fair Gresham, OR	0	1,288,328	5,059,079	138,661
Pablo Plaza Jacksonville, FL	(H)	2,147,213	5,922,120	508,141
Southhaven Southhaven, MS	(H)	1,288,328	4,793,938	31,050
Town West Indianapolis, IN	(H)	1,932,491	3,303,752	20,814
Westbird Miami, FL	(H)	1,566,070	5,475,510	660,577
Winery Square Fairfield, CA	(H)	4,320,555	8,916,731	157,429
Mountain View Village Shellville, GA	(H)	2,675,960	8,661,498	88,972
Forest Park Square Cincinnati, OH	0	1,532,064	7,841,725	10,000
Kokomo Plaza Kokomo, IN	(H)	695,912	6,643,748	31,557
Rolling Hills Square Tucson, AZ	(H)	2,624,639	2,516,365	(7)
Mountain Park Plaza Atlanta, GA	0	1,566,015	3,791,633	0
Applewood Centre Omaha, NE	(H)	1,795,469	4,574,757	0
Birdneck Center Virginia Beach, VA	(H)	469,227	2,837,048	0
The Market Place Newton, NC	(H)	810,910	4,875,966	0
Barclay Place Lakeland, FL	2,523,267	573,079	3,452,804	28,402
The Village At Waterford Midlothian, VA	3,800,498	940,193	5,629,239	0
Governor's Square	(H)	1,220,408	7,297,832	14,401

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Montgomery, AL Marion City Square	(H)	765,950	4,619,926	0
Marion, NC Dunlop Village Colonial Heights, VA	(H)	751,518	4,505,067	0

GROSS AMOUNT AT WHICH CARRIED AT CLOSE OF PERIOD (D)					
	LAND	BUILDINGS AND IMPROVEMENTS	TOTAL	ACCUMULATED DEPRECIATION	YEAR CONSTRU
Shopping Centers:					
Cactus Village Glendale, AZ	\$ 2,050,949	\$ 4,622,717	\$ 6,673,666	\$ 1,668,915	1986
Hickory Plaza Nashville, TN	1,284,579	4,019,090	5,303,669	1,470,250	1974
Highland Fair Gresham, OR	1,220,360	5,203,450	6,423,810	1,870,459	1986
Pablo Plaza Jacksonville, FL	2,139,347	7,562,118	9,701,465	2,410,729	1972
Southhaven Southhaven, MS	1,288,328	4,823,353	6,111,681	1,763,432	1984
Town West Indianapolis, IN	1,932,491	3,346,872	5,279,363	1,247,764	1985
Westbird Miami, FL	1,568,544	8,653,578	10,222,122	2,452,045	1977
Winery Square Fairfield, CA	4,093,236	8,614,209	12,707,445	3,044,552	1987
Mountain View Village Shellville, GA	2,532,603	8,211,700	10,744,303	2,682,393	1987
Forest Park Square Cincinnati, OH	2,026,908	7,766,752	9,793,660	2,490,194	1988
Kokomo Plaza Kokomo, IN	687,128	6,721,949	7,409,077	2,121,426	1988
Rolling Hills Square Tucson, AZ	2,956,872	3,588,232	6,545,104	519,255	1980
Mountain Park Plaza Atlanta, GA	3,355,398	3,238,764	6,594,162	242,324	1988
Applewood Centre Omaha, NE	1,795,469	4,570,478	6,365,947	592,535	1989
Birdneck Center Virginia Beach, VA	469,227	2,930,134	3,399,361	351,061	1987
The Market Place Newton, NC	810,910	5,131,767	5,942,677	500,505	1989
Barclay Place Lakeland, FL	573,079	3,820,345	4,393,424	361,307	1974
The Village At Waterford Midlothian, VA	940,193	5,758,084	6,698,277	534,806	1991
Governor's Square Montgomery, AL	1,220,408	8,804,838	10,025,246	908,998	1960
Marion City Square	765,950	4,756,019	5,521,969	429,037	1988

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Marion, NC Dunlop Village Colonial Heights, VA	751,518	4,670,105	5,421,623	394,091	1986
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		INITIAL COST TO PARTNERSHIP (F)		COST CAPITALIZED SUBSEQUENT TO ACQUISITION
	ENCUM- BRANCES	LAND	BUILDINGS AND IMPROVEMENTS	IMPROVEMENTS
Centre Stage Springfield, TN	(H)	1,052,698	6,305,930	0
White Oaks Plaza Spindale, NC	0	1,237,309	7,445,072	0
Cape Henry Virginia Beach, VA	(H)	587,486	3,548,028	0
Emporia West Emporia, KS	(H)	435,001	2,679,059	0
Oxford Mall Oxford, MS	6,290,934	1,289,377	7,745,666	0
Southgate Heath, OH	10,664,906	2,269,668	13,391,965	0
Crossroads East Columbus, OH	(H)	721,798	4,273,252	0
	-----	-----	-----	-----
	\$66,472,605	\$39,939,526	\$154,671,291	\$1,741,805
	=====	=====	=====	=====

	GROSS AMOUNT AT WHICH CARRIED AT CLOSE OF PERIOD (D)				
	LAND	BUILDINGS AND IMPROVEMENTS	TOTAL	ACCUMULATED DEPRECIATION	YEAR CONSTRU
Centre Stage Springfield, TN	1,037,737	6,554,408	7,592,145	577,390	1989
White Oaks Plaza Spindale, NC	1,237,309	4,945,073	6,182,382	620,190	1988
Cape Henry Virginia Beach, VA	587,486	3,653,908	4,241,394	304,054	1986
Emporia West Emporia, KS	435,001	2,746,749	3,181,750	224,890	1980
Oxford Mall Oxford, MS	1,289,377	7,907,656	9,197,033	632,083	1982
Southgate Heath, OH	2,269,668	14,270,142	16,539,810	1,107,087	1962



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Crossroads East Columbus, OH	721,798 -----	4,273,252 -----	4,995,050 -----	329,304 -----	1984
	\$42,041,873 =====	\$161,165,742 =====	\$203,207,615 =====	\$31,851,076 =====	

- (A) Renovated and expanded in 1985.
- (B) Expanded and remodeled from 1983 through 1985.
- (C) Expanded in 1986.
- (D) Aggregate cost for federal income tax purposes is \$185,422,823.
- (E) Amounts received and accrued from sellers' rental guarantees from the sellers of the properties purchased by the Company.
- (F) Included in buildings and improvements are acquisition fees.
- (G) Expanded in 1997.
- (H) This shopping center is part of a pool of assets collateralizing the Credit Facility which has an outstanding balance of \$43,193,000 at December 31, 2001.
- (J) Renovated and expanded in 1988.
- (K) Developed and renovated in four phases from 1960 through 1990.
- (L) Renovated in 1984 and from 1996 through 1997.
- (M) Renovated from 1996 through 1997.

## Reconciliation of Real Estate Owned:

	2001 -----	2000 -----	1999 -----
Balance at beginning of period:	\$202,615,322	\$196,037,997	\$194,144,000
Acquisitions	1,790,284	557,823	714,000
Dispositions	(2,131,160)	(46,077)	
Improvements	3,628,987	6,227,319	1,753,000
Write-off of improvements	(2,695,818)	(161,740)	(574,000)
Balance at close of period:	\$203,207,615 =====	\$202,615,322 =====	\$196,037,997 =====

## Reconciliation of Accumulated Depreciation:

	2001 -----	2000 -----	1999 -----
Balance at beginning of period:	\$ 27,458,593	\$23,253,033	\$ 19,268,000
Depreciation Expense	4,800,037	4,338,565	4,114,000
Write-off of accumulated depreciation on improvements	(407,554)	(133,005)	(129,000)
Balance at close of period:	\$31,851,076 =====	\$ 27,458,593 =====	\$ 23,253,000 =====

