EASTGROUP PROPERTIES INC
Form 10-Q
October 25, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2011 COMMISSION FILE NUMBER 1-07094

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

MARYLAND (State or other jurisdiction of incorporation or organization)	13-2711135 (I.R.S. Employer Identification No.)
190 EAST CAPITOL STREET SUITE 400 JACKSON, MISSISSIPPI (Address of principal executive offices)	39201 (Zip code)

Registrant's telephone number: (601) 354-3555

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES (x) NO ( )

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer (x)   Accelerated Filer ( )   Non-accelerated Filer ( )   Smaller Reporting Company ( )

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ( ) NO (x)

The number of shares of common stock, $.0001 par value, outstanding as of October 21, 2011 was 27,080,371.

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES

FORM 10-Q

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Authorized
signatures

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

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Real estate properties	$ 1,486,907	1,447,455
Development	99,261	73,722
	1,586,168	1,521,177
Less accumulated depreciation	(439,465)	(403,187)
	1,146,703	1,117,990
Unconsolidated investment	2,740	2,740
Cash	447	137
Other assets	62,303	62,409
TOTAL ASSETS	$ 1,212,193	1,183,276
LIABILITIES AND EQUITY		
LIABILITIES		
Mortgage notes payable	$ 634,108	644,424
Notes payable to banks	144,298	91,294
Accounts payable and accrued expenses	30,404	20,969
Other liabilities	15,392	15,083
Total Liabilities	824,202	771,770
EQUITY		
Stockholders' Equity:		
Common shares; $.0001 par value; 70,000,000 shares authorized; 27,080,371 shares issued and outstanding at September 30, 2011 and 26,973,531 at December 31, 2010	3	3
Excess shares; $.0001 par value; 30,000,000 shares authorized; no shares issued	–	–
Additional paid-in capital on common shares	593,923	591,106
Distributions in excess of earnings	(208,680)	(182,253)
Total Stockholders' Equity	385,246	408,856
Noncontrolling interest in joint ventures	2,745	2,650
Total Equity	387,991	411,506
TOTAL LIABILITIES AND EQUITY	$ 1,212,193	1,183,276

See accompanying Notes to Consolidated Financial Statements (unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
REVENUES				
Income from real estate operations	$43,942	43,118	130,441	131,077
Other income	20	20	64	108
	43,962	43,138	130,505	131,185
EXPENSES				
Expenses from real estate operations	12,628	13,176	37,663	39,745
Depreciation and amortization	14,437	14,648	42,790	44,071
General and administrative	2,551	2,521	8,127	7,603
Acquisition costs	55	–	55	72
	29,671	30,345	88,635	91,491
OPERATING INCOME	14,291	12,793	41,870	39,694
OTHER INCOME (EXPENSE)				
Equity in earnings of unconsolidated investment	87	84	260	251
Gain on sales of non-operating real estate	9	9	27	28
Interest income	84	85	251	252
Interest expense	(8,680)	(8,845)	(26,100)	(26,515)
NET INCOME	5,791	4,126	16,308	13,710
Net income attributable to noncontrolling interest in joint ventures	(121)	(103)	(354)	(307)
NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS	$5,670	4,023	15,954	13,403
BASIC PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Net income attributable to common stockholders	$.21	.15	.59	.50
Weighted average shares outstanding	26,839	26,758	26,823	26,747
DILUTED PER COMMON SHARE DATA FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				

Net income attributable to common stockholders	$ .21	.15	.59	.50
Weighted average shares outstanding	26,914	26,828	26,894	26,810

See accompanying Notes to Consolidated Financial Statements (unaudited).

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)
(UNAUDITED)

	Common Stock	Additional Paid-In Capital	Distributions In Excess Of Earnings	Noncontrolling Interest in Joint Ventures	Total
BALANCE, DECEMBER 31, 2010	$3	591,106	(182,253)	2,650	411,506
Net income	–	–	15,954	354	16,308
Common dividends declared – $1.56 per share	–	–	(42,381)	–	(42,381)
Stock-based compensation, net of forfeitures	–	2,203	–	–	2,203
Issuance of 15,000 shares of common stock, common stock offering, net of expenses	–	450	–	–	450
Issuance of 6,000 shares of common stock, options exercised	–	133	–	–	133
Issuance of 4,528 shares of common stock, dividend reinvestment plan	–	188	–	–	188
Withheld 3,564 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock	–	(157)	–	–	(157)
Distributions to noncontrolling interest	–	–	–	(259)	(259)
BALANCE, SEPTEMBER 30, 2011	$3	593,923	(208,680)	2,745	387,991

See accompanying Notes to Consolidated Financial Statements (unaudited).

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

	Nine Months Ended September 30,	
	2011	2010
OPERATING ACTIVITIES		
Net income	$16,308	13,710
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization from continuing operations	42,790	44,071
Amortization of mortgage loan premiums	(94)	(93)
Gain on sales of land and real estate investments	(27)	(28)
Amortization of discount on mortgage loan receivable	(10)	(10)
Stock-based compensation expense	1,910	1,472
Equity in earnings of unconsolidated investment, net of distributions	–	19
Changes in operating assets and liabilities:		
Accrued income and other assets	1,007	1,587
Accounts payable, accrued expenses and prepaid rent	7,042	3,087
NET CASH PROVIDED BY OPERATING ACTIVITIES	68,926	63,815
INVESTING ACTIVITIES		
Real estate development	(28,982)	(6,724)
Purchases of real estate	(23,450)	(23,906)
Real estate improvements	(14,089)	(15,438)
Repayments on mortgage loans receivable	27	28
Changes in accrued development costs	2,313	(418)
Changes in other assets and other liabilities	(5,041)	(5,058)
NET CASH USED IN INVESTING ACTIVITIES	(69,222)	(51,516)
FINANCING ACTIVITIES		
	213,034	139,343

Proceeds from bank borrowings		
Repayments on bank borrowings	(160,030)	(94,280)
Proceeds from mortgage notes payable	65,000	–
Principal payments on mortgage notes payable	(75,222)	(14,714)
Debt issuance costs	(632)	(60)
Distributions paid to stockholders	(41,880)	(42,018)
Proceeds from common stock offerings	450	303
Proceeds from exercise of stock options	133	338
Proceeds from dividend reinvestment plan	184	201
Other	(431)	(2,320)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	606	(13,207)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	310	(908)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	137	1,062
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$447	154
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest, net of amount capitalized of $2,695 and $2,705 for 2011 and 2010, respectively	$25,340	25,892
Fair value of common stock awards issued to employees and directors, net of forfeitures	3,827	5,174

See accompanying Notes to Consolidated Financial Statements (unaudited).

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) BASIS OF PRESENTATION

The accompanying unaudited financial statements of EastGroup Properties, Inc. ("EastGroup" or "the Company") have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In management's opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the financial statements contained in the 2010 annual report on Form 10-K and the notes thereto.

Certain reclassifications have been made in the 2010 consolidated financial statements to conform to the 2011 presentation.

(2) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of EastGroup, its wholly-owned subsidiaries and its investment in any joint ventures in which the Company has a controlling interest. At September 30, 2011 and December 31, 2010, the Company had a controlling interest in two joint ventures: the 80% owned University Business Center and the 80% owned Castilian Research Center. The Company records 100% of the joint ventures' assets, liabilities, revenues and expenses with noncontrolling interests provided for in accordance with the joint venture agreements. The equity method of accounting is used for the Company's 50% undivided tenant-in-common interest in Industry Distribution Center II. All significant intercompany transactions and accounts have been eliminated in consolidation.

(3) USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses during the reporting period and to disclose material contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(4) REAL ESTATE PROPERTIES

EastGroup has one reportable segment – industrial properties. These properties are concentrated in major Sunbelt markets of the United States, primarily in the states of Florida, Texas, Arizona, California and North Carolina, have similar economic characteristics and also meet the other criteria that permit the properties to be aggregated into one reportable segment.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows (including estimated future expenditures necessary to substantially complete the asset) expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of September 30, 2011 and December

31, 2010, the Company determined no impairment charges on the Company's real estate properties were necessary.

Depreciation of buildings and other improvements, including personal property, is computed using the straight-line method over estimated useful lives of generally 40 years for buildings and 3 to 15 years for improvements and personal property. Building improvements are capitalized, while maintenance and repair expenses are charged to expense as incurred. Significant renovations and improvements that improve or extend the useful life of the assets are capitalized. Depreciation expense was $12,175,000 and $36,278,000 for the three and nine months ended September 30, 2011, respectively, and $12,222,000 and $36,429,000 for the same periods in 2010.

The Company's real estate properties at September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
	(In thousands)	
Real estate properties:		
Land	$ 226,398	221,523
Buildings and building improvements	1,008,527	985,798
Tenant and other improvements	251,982	240,134
Development	99,261	73,722
	1,586,168	1,521,177
Less accumulated depreciation	(439,465)	(403,187)
	$ 1,146,703	1,117,990

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(5) DEVELOPMENT

During the period in which a property is under development, costs associated with development (i.e., land, construction costs, interest expense, property taxes and other direct and indirect costs associated with development) are aggregated into the total capitalized costs of the property. Included in these costs are management's estimates for the portions of internal costs (primarily personnel costs) deemed directly or indirectly related to such development activities. As the property becomes occupied, depreciation commences on the occupied portion of the building, and costs are capitalized only for the portion of the building that remains vacant. When the property becomes 80% occupied or one year after completion of the shell construction (whichever comes first), capitalization of development costs ceases. The properties are then transferred to real estate properties, and depreciation commences on the entire property (excluding the land).

(6) BUSINESS COMBINATIONS AND ACQUIRED INTANGIBLES

Upon acquisition of real estate properties, the Company applies the principles of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, Business Combinations, which requires that acquisition-related costs be recognized as expenses in the periods in which the costs are incurred and the services are received. The Codification also provides guidance on how to properly determine the allocation of the purchase price among the individual components of both the tangible and intangible assets based on their respective fair values. Goodwill is recorded when the purchase price exceeds the fair value of the assets and liabilities acquired. The Company determines whether any financing assumed is above or below market based upon comparison to similar financing terms for similar properties. The cost of the properties acquired may be adjusted based on indebtedness assumed from the seller that is determined to be above or below market rates. Factors considered by management in allocating the cost of the properties acquired include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. The allocation to tangible assets (land, building and improvements) is based upon management's determination of the value of the property as if it were vacant using discounted cash flow models.

The purchase price is also allocated among the following categories of intangible assets: the above or below market component of in-place leases, the value of in-place leases, and the value of customer relationships. The value allocable to the above or below market component of an acquired in-place lease is determined based upon the present value (using a discount rate reflecting the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above and below market leases are included in Other Assets and Other Liabilities, respectively, on the Consolidated Balance Sheets and are amortized to rental income over the remaining terms of the respective leases. The total amount of intangible assets is further allocated to in-place lease values and customer relationship values based upon management's assessment of their respective values. These intangible assets are included in Other Assets on the Consolidated Balance Sheets and are amortized over the remaining term of the existing lease, or the anticipated life of the customer relationship, as applicable. Amortization expense for in-place lease intangibles was $661,000 and $1,693,000 for the three and nine months ended September 30, 2011, respectively, and $784,000 and $2,569,000 for the same periods in 2010. Amortization of above and below market leases decreased rental income by $71,000 and $256,000 for the three and nine months ended September 30, 2011, respectively, and decreased rental income by $168,000 and $346,000 for the same periods in 2010.

During the first nine months of 2011, EastGroup acquired the following operating properties: Lakeview Business Center and Ridge Creek Distribution Center II in Charlotte, North Carolina, and Broadway Industrial Park, Building VII, in Tempe, Arizona. The Company purchased these properties for a total cost of $23,450,000, of which $22,090,000 was allocated to real estate properties. The Company allocated $4,875,000 of the total purchase price to land using third party land valuations for the Charlotte and Tempe markets. The market values are considered to be Level 3 inputs as defined by ASC 820, Fair Value Measurements and Disclosures (see Note 17 for additional information on ASC 820). Intangibles associated with the purchase of real estate were allocated as follows: $1,320,000 to in-place lease intangibles, $66,000 to above market leases (both included in Other Assets on the Consolidated Balance Sheets), and $26,000 to below market leases (included in Other Liabilities on the Consolidated Balance Sheets). These costs are amortized over the remaining lives of the associated leases in place at the time of acquisition.

EastGroup expensed acquisition-related costs of $55,000 during the three and nine months ended September 30, 2011. The Company did not expense any acquisition-related costs during the three months ended September 30, 2010. During the nine months ended September 30, 2010, EastGroup expensed acquisition-related costs of $72,000 in connection with the acquisitions of Commerce Park 2 & 3 in Charlotte, North Carolina; Ocean View Corporate Center in San Diego, California; and East University Distribution Center III in Phoenix, Arizona.

The Company periodically reviews the recoverability of goodwill (at least annually) and the recoverability of other intangibles (on a quarterly basis) for possible impairment. In management's opinion, no impairment of goodwill and other intangibles existed at September 30, 2011 and December 31, 2010.

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(7) REAL ESTATE HELD FOR SALE/DISCONTINUED OPERATIONS

The Company considers a real estate property to be held for sale when it meets the criteria established under ASC 360, Property, Plant, and Equipment, including when it is probable that the property will be sold within a year. A key indicator of probability of sale is whether the buyer has a significant amount of earnest money at risk. Real estate properties held for sale are reported at the lower of the carrying amount or fair value less estimated costs to sell and are not depreciated while they are held for sale. In accordance with the guidelines established under the Codification, the results of operations for the properties sold or held for sale during the reported periods are shown under Discontinued Operations on the Consolidated Statements of Income. Interest expense is not generally allocated to the properties held for sale or whose operations are included under Discontinued Operations unless the mortgage is required to be paid in full upon the sale of the property.

EastGroup did not sell any real estate properties during 2010 or during the first nine months of 2011, and the Company had no real estate properties held for sale at September 30, 2011 or December 31, 2010. Therefore, the Company has no Discontinued Operations on the Consolidated Statements of Income.

(8) OTHER ASSETS

A summary of the Company's Other Assets follows:

		September 30, 2011	December 31, 2010
		(In thousands)	
Leasing costs (principally commissions), net of accumulated amortization of $15,799 and $18,566 for 2011 and 2010, respectively	$	22,776	22,274
Straight-line rent receivable, net of allowance for doubtful accounts of $311 and $282 for 2011 and 2010, respectively		20,208	18,694
Accounts receivable, net of allowance for doubtful accounts of $484 and $706 for 2011 and 2010, respectively		2,629	2,460
Mortgage loans receivable, net of discount of $46 and $56 for 2011 and 2010, respectively		4,114	4,131
Loan costs, net of accumulated amortization of $4,173 and $4,129 for 2011 and 2010, respectively		3,195	3,358
Acquired in-place lease intangibles, net of accumulated amortization of $8,136 and $6,443 for 2011 and 2010, respectively		2,672	3,046
Goodwill		990	990
		5,719	7,456

Prepaid expenses and other assets	$	62,303	62,409

(9) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

A summary of the Company's Accounts Payable and Accrued Expenses follows:

		September 30, 2011	December 31, 2010
		(In thousands)	
Property taxes payable	$	17,859	9,776
Interest payable		2,685	2,625
Dividends payable on nonvested restricted stock		1,292	791
Development costs payable		2,986	673
Other payables and accrued expenses		5,582	7,104
	$	30,404	20,969

(10) OTHER LIABILITIES

A summary of the Company's Other Liabilities follows:

		September 30, 2011	December 31, 2010
		(In thousands)	
Security deposits	$	8,887	8,299
Prepaid rent and other deferred income		5,991	6,440
Other liabilities		514	344
	$	15,392	15,083

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(11) COMPREHENSIVE INCOME

Comprehensive income is comprised of net income plus all other changes in equity from non-owner sources. The components of Accumulated Other Comprehensive Loss are summarized below. See Note 12 for information regarding the Company's interest rate swap, which was settled in October 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
ACCUMULATED OTHER COMPREHENSIVE LOSS:				
Balance at beginning of period	$–	(159)	–	(318)
Change in fair value of interest rate swap	–	76	–	235
Balance at end of period	$–	(83)	–	(83)

(12) DERIVATIVES AND HEDGING ACTIVITIES

ASC 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also provides guidance for using fair value to measure financial assets and liabilities. The Codification requires disclosure of the level within the fair value hierarchy in which the fair value measurements fall, including measurements using quoted prices in active markets for identical assets or liabilities (Level 1), quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active (Level 2), and significant valuation assumptions that are not readily observable in the market (Level 3).

ASC 815, Derivatives and Hedging, requires all entities with derivative instruments to disclose information regarding how and why the entity uses derivative instruments and how derivative instruments and related hedged items affect the entity's financial position, financial performance, and cash flows. EastGroup does not currently have any derivatives or hedging instruments.

On October 1, 2010, EastGroup repaid its $8,770,000 mortgage loan on the Tower Automotive Center. Until the repayment, the Company had an interest rate swap agreement to hedge its exposure to the variable interest rate on this mortgage. The Company's interest rate swap was reported at fair value and shown on the Consolidated Balance Sheets under Other Liabilities. The fair value of the Company's interest rate swap was determined by estimating the expected cash flows over the life of the swap using the mid-market rate and price environment as of the last trading day of the reporting period. This market information is considered a Level 2 input as defined by ASC 820. Under the swap agreement, the Company effectively paid a fixed rate of interest over the term of the agreement without the exchange of the underlying notional amount. This swap was designated as a cash flow hedge and was considered to be fully effective in hedging the variable rate risk associated with the Tower mortgage loan. Changes in the fair value of the swap were recognized in other comprehensive income (loss) (see Note 11). The Company did not hold or issue this type of derivative contract for trading or speculative purposes.

(13) EARNINGS PER SHARE

The Company applies ASC 260, Earnings Per Share, which requires companies to present basic and diluted earnings per share (EPS). Basic EPS represents the amount of earnings for the period attributable to each share of common stock outstanding during the reporting period. The Company's basic EPS is calculated by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding.

Diluted EPS represents the amount of earnings for the period attributable to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. The Company calculates diluted EPS by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding plus the dilutive effect of nonvested restricted stock and stock options had the options been exercised. The dilutive effect of stock options and their equivalents (such as nonvested restricted stock) was determined using the treasury stock method which assumes exercise of the options as of the beginning of the period or when issued, if later, and assumes proceeds from the exercise of options are used to purchase common stock at the average market price during the period.

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Reconciliation of the numerators and denominators in the basic and diluted EPS computations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
BASIC EPS COMPUTATION FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Numerator – net income attributable to common stockholders	$5,670	4,023	15,954	13,403
Denominator – weighted average shares outstanding	26,839	26,758	26,823	26,747
DILUTED EPS COMPUTATION FOR NET INCOME ATTRIBUTABLE TO EASTGROUP PROPERTIES, INC. COMMON STOCKHOLDERS				
Numerator – net income attributable to common stockholders	$5,670	4,023	15,954	13,403
Denominator:				
Weighted average shares outstanding	26,839	26,758	26,823	26,747
Common stock options	5	9	7	11
Nonvested restricted stock	70	61	64	52
Total Shares	26,914	26,828	26,894	26,810

(14) STOCK-BASED COMPENSATION

Equity Incentive Plan
In May 2004, the stockholders of the Company approved the EastGroup Properties, Inc. 2004 Equity Incentive Plan (the “Plan”) that authorized the issuance of up to 1,900,000 shares of common stock to employees in the form of options, stock appreciation rights, restricted stock, deferred stock units, performance shares, bonus stock or stock in lieu of cash compensation. The Plan was further amended by the Board of Directors in September 2005 and December 2006. Total shares available for grant were 1,407,156 at September 30, 2011. Typically, the Company issues new shares to fulfill stock grants or upon the exercise of stock options.

Stock-based compensation cost was $555,000 and $1,903,000 for the three and nine months ended September 30, 2011, respectively, of which $102,000 and $188,000 were capitalized as part of the Company’s development costs. For the three and nine months ended September 30, 2010, stock-based compensation cost was $470,000 and $1,331,000, respectively, of which $10,000 and $39,000 were capitalized as part of the Company’s development costs.

Equity Awards
In the second quarter of 2011, the Company’s Board of Directors approved an equity compensation plan for its executive officers based upon the attainment of certain annual performance goals. These goals are for the period ending December 31, 2011, so any shares issued upon attainment of these goals will be issued after that date. The number of shares to be issued could range from zero to 50,705. These shares will vest 20% on the date shares are

determined and awarded and 20% per year on each January 1 for the subsequent four years.

Also in the second quarter of 2011, EastGroup's Board of Directors approved an equity compensation plan for the Company's executive officers based on EastGroup's absolute and relative total stockholder return for the five-year period ending December 31, 2011. Any shares issued pursuant to this equity compensation plan will be issued after that date. The number of shares to be issued could range from zero to 53,680. These shares will vest 25% per year on January 1 in years 2012, 2013, 2014 and 2015.

Notwithstanding the foregoing, pursuant to a special vesting provision adopted by the Company's Compensation Committee, shares issued to the Company's Chief Executive Officer, David H. Hoster II, will become fully vested no later than January 1, 2014.

Following is a summary of the total shares granted, forfeited and delivered (vested) to employees with the related weighted average grant date fair value share prices. Of the shares that vested in the first quarter of 2011, the Company withheld 3,564 shares to satisfy the tax obligations for those employees who elected this option as permitted under the applicable equity plan. As of the vesting date, the fair value of shares that vested during the first quarter of 2011 was $613,000. There were no shares that vested in the second or third quarters of 2011.

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Award Activity:	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	235,162	$38.89	170,575	$36.29
Granted	–	–	78,491	45.05
Forfeited	(233)	35.85	(233)	35.85
Vested	–	–	(13,904)	41.77
Nonvested at end of period	234,929	$38.89	234,929	$38.89

Directors Equity Plan
In May 2005, the stockholders of the Company approved the EastGroup Properties, Inc. 2005 Directors Equity Incentive Plan that authorized the issuance of up to 50,000 shares of common stock through awards of shares and restricted shares granted to non-employee directors of the Company. The Directors Equity Incentive Plan was further amended by the Board of Directors in May 2006, May 2008 and May 2011. Stock-based compensation expense for directors was $75,000 and $195,000 for the three and nine months ended September 30, 2011, respectively, and $60,000 and $180,000 for the same periods in 2010.

(15) RISKS AND UNCERTAINTIES

The state of the overall economy can significantly impact the Company's operational performance and thus impact its financial position. Should EastGroup experience a significant decline in operational performance, it may affect the Company's ability to make distributions to its shareholders, service debt, or meet other financial obligations.

(16) RECENT ACCOUNTING PRONOUNCEMENTS

EastGroup has evaluated all Accounting Standards Updates (ASUs) released by the FASB through the date the financial statements were issued and determined that the following ASUs apply to the Company.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which provides guidance about how fair value should be applied where it is already required or permitted under U.S. GAAP. The ASU does not extend the use of fair value or require additional fair value measurements, but rather provides explanations about how to measure fair value. ASU 2011-04 requires prospective application and will be effective for interim and annual reporting periods beginning after December 15, 2011. The Company believes the adoption of this ASU will have an immaterial impact on the Company's overall financial position and results of operations.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, which eliminates the option to present components of other comprehensive income as part of the statement of changes in equity and requires that all nonowner changes in equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 requires retrospective application and will be effective for interim

and annual reporting periods beginning after December 15, 2011. The Company believes the adoption of ASU 2011-05 will have an immaterial impact on the Company's disclosures of comprehensive income.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. Under this ASU, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company believes the adoption of this ASU will have an immaterial impact on the Company.

EASTGROUP PROPERTIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(17) FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also provides guidance for using fair value to measure financial assets and liabilities. The Codification requires disclosure of the level within the fair value hierarchy in which the fair value measurements fall, including measurements using quoted prices in active markets for identical assets or liabilities (Level 1), quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active (Level 2), and significant valuation assumptions that are not readily observable in the market (Level 3).

The Company's interest rate swap, as discussed in Note 12, was reported at fair value and shown on the Consolidated Balance Sheets under Other Liabilities. The swap was settled on October 1, 2010, with the repayment of the Company's $8,770,000 mortgage loan on the Tower Automotive Center. Until the repayment, the fair value of the interest rate swap was determined by estimating the expected cash flows over the life of the swap using the mid-market rate and price environment as of the last trading day of the reporting period. This market information is considered a Level 2 input as defined by ASC 820.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments in accordance with ASC 820 at September 30, 2011 and December 31, 2010.

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$447	447	137	137
Mortgage loans receivable, net of discount	4,114	4,320	4,131	4,199
Financial Liabilities:				
Mortgage notes payable	634,108	680,931	644,424	671,527
Notes payable to banks	144,298	144,064	91,294	89,818

Carrying amounts shown in the table are included in the Consolidated Balance Sheets under the indicated captions, except as indicated in the notes below.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents: The carrying amounts approximate fair value due to the short maturity of those instruments.
Mortgage loans receivable, net of discount (included in Other Assets on the Consolidated Balance Sheets): The fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities (Level 2 input).
Mortgage notes payable: The fair value of the Company's mortgage notes payable is estimated by discounting expected cash flows at the rates currently offered to the Company for debt of the same remaining maturities, as advised by the Company's bankers (Level 2 input).
Notes payable to banks: The fair value of the Company's notes payable to banks is estimated by discounting expected cash flows at current market rates (Level 2 input).

(18) SUBSEQUENT EVENT

In October 2011, EastGroup executed an application for a $54 million, non-recourse first mortgage loan with a fixed interest rate of 4.09%, a 10-year term and a 20-year amortization schedule. The loan, which will be secured by properties containing 1.4 million square feet, is expected to close in January 2012. The Company plans to use the proceeds of this mortgage loan to reduce variable rate bank borrowings.

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

OVERVIEW

EastGroup's goal is to maximize shareholder value by being a leading provider in its markets of functional, flexible, and quality business distribution space for location sensitive tenants primarily in the 5,000 to 50,000 square foot range. The Company acquires, develops and operates distribution facilities, the majority of which are clustered around major transportation features in supply constrained submarkets in major Sunbelt regions. The Company's core markets are in the states of Florida, Texas, Arizona, California and North Carolina.

The operations of the Company have improved during the nine months ended September 30, 2011, compared to the same period of 2010. Occupancy has stabilized and is currently improving, but the Company still experiences decreases in rental rates. The Company is able to obtain financing at attractive rates, but mortgage loan proceeds as a percentage of property values have decreased, and lenders' underwriting standards have become stricter. The Company believes its current operating cash flow and lines of credit provide the capacity to fund the operations of the Company for the remainder of 2011 and 2012. The Company also believes it can issue common and/or preferred equity and obtain mortgage financing from insurance companies and financial institutions as evidenced by the closing of a $65 million, non-recourse first mortgage loan in May 2011, the signing of an application for a $54 million, non-recourse first mortgage loan in October 2011, and the continuous common equity offering program, which provided net proceeds to the Company of $450,000 in the third quarter of 2011, as described in Liquidity and Capital Resources.

The Company's primary revenue is rental income; as such, EastGroup's primary challenge is leasing space. During the nine months ended September 30, 2011, leases expired on 3,390,000 square feet (11.9%) of EastGroup's total square footage of 28,556,000, and the Company was successful in renewing or re-leasing 85% of the expiring square feet. In addition, EastGroup leased 1,984,000 square feet of other vacant space during this period. During the nine months ended September 30, 2011, average rental rates on new and renewal leases decreased by 13.1%. Property net operating income (PNOI) from same properties increased 3.6% for the quarter ended September 30, 2011, as compared to the same quarter in 2010. For the nine months ended September 30, 2011, PNOI from same properties increased 0.5% as compared to the same period last year.

EastGroup's total leased percentage was 93.9% at September 30, 2011, compared to 90.0% at September 30, 2010. Leases scheduled to expire for the remainder of 2011 were 2.0% of the portfolio on a square foot basis at September 30, 2011, and this figure was reduced to 1.4% as of October 21, 2011.

The Company generates new sources of leasing revenue through its acquisition and development programs. EastGroup continues to see targeted development as a contributor to the Company's long-term growth. The Company mitigates risks associated with development through a Board-approved maximum level of land held for development and by adjusting development start dates according to leasing activity. During the first nine months of 2011, the Company acquired three operating properties (451,000 square feet) in Charlotte, North Carolina, and Tempe, Arizona, for $23,450,000 and 165 acres of development land in Houston, Texas, and Chandler (Phoenix), Arizona, for $13,290,000. As of September 30, 2011, EastGroup's development program consisted of six projects (411,000 square feet) located in Houston and San Antonio, Texas, and Orlando, Florida. The projected total cost for the development projects, which were collectively 65% leased as of October 21, 2011, is $31.7 million, of which $14.0 million remained to be invested as of September 30, 2011.

During the first nine months of 2011, the Company initially funded its acquisition and development programs through its $225 million lines of credit (as discussed in Liquidity and Capital Resources). As market conditions permit, EastGroup issues equity, including preferred equity, and/or employs fixed-rate debt to replace short-term bank borrowings.

EastGroup has one reportable segment – industrial properties. These properties are primarily located in major Sunbelt regions of the United States, have similar economic characteristics and also meet the other criteria permitting the properties to be aggregated into one reportable segment. The Company's chief decision makers use two primary measures of operating results in making decisions: (1) property net operating income (PNOI), defined as income from real estate operations less property operating expenses (before interest expense and depreciation and amortization), and (2) funds from operations attributable to common stockholders (FFO), defined as net income (loss) attributable to common stockholders computed in accordance with U.S. generally accepted accounting principles (GAAP), excluding gains or losses from sales of depreciable real estate property, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The Company calculates FFO based on the National Association of Real Estate Investment Trusts' (NAREIT) definition.

PNOI is a supplemental industry reporting measurement used to evaluate the performance of the Company's real estate investments. The Company believes the exclusion of depreciation and amortization in the industry's calculation of PNOI provides a supplemental indicator of the properties' performance since real estate values have historically risen or fallen with market conditions. PNOI as calculated by the Company may not be comparable to similarly titled but differently calculated measures for other real estate investment trusts (REITs). The major factors influencing PNOI are occupancy levels, acquisitions and sales, development properties that achieve stabilized operations, rental rate increases or decreases, and the recoverability of operating expenses. The Company's success depends largely upon its ability to lease space and to recover from tenants the operating costs associated with those leases. PNOI is comprised of Income from real estate operations, less Expenses from real estate operations. PNOI was calculated as follows for the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Income from real estate operations	$43,942	43,118	130,441	131,077
Expenses from real estate operations	(12,628)	(13,176)	(37,663)	(39,745)
PROPERTY NET OPERATING INCOME	$31,314	29,942	92,778	91,332

Income from real estate operations is comprised of rental income, pass-through income and other real estate income including lease termination fees. Expenses from real estate operations is comprised of property taxes, insurance, utilities, repair and maintenance expenses, management fees, other operating costs and bad debt expense. Generally, the Company's most significant operating expenses are property taxes and insurance. Tenant leases may be net leases in which the total operating expenses are recoverable, modified gross leases in which some of the operating expenses are recoverable, or gross leases in which no expenses are recoverable (gross leases represent only a small portion of the Company's total leases). Increases in property operating expenses are fully recoverable under net leases and recoverable to a high degree under modified gross leases. Modified gross leases often include base year amounts and expense increases over these amounts are recoverable. The Company's exposure to property operating expenses is primarily due to vacancies and leases for occupied space that limit the amount of expenses that can be recovered.

The following table presents reconciliations of Net Income to PNOI for the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
NET INCOME	$5,791	4,126	16,308	13,710
Equity in earnings of unconsolidated investment	(87)	(84)	(260)	(251)
Interest income	(84)	(85)	(251)	(252)
Other income	(20)	(20)	(64)	(108)
Gain on sales of non-operating real estate	(9)	(9)	(27)	(28)
Depreciation and amortization from continuing operations	14,437	14,648	42,790	44,071
Interest expense	8,680	8,845	26,100	26,515
General and administrative expense	2,551	2,521	8,127	7,603
Acquisition costs	55	–	55	72
PROPERTY NET OPERATING INCOME	$31,314	29,942	92,778	