

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

AMERIVEST PROPERTIES INC  
Form 10QSB  
May 08, 2002

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

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2002.

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-14462

AmeriVest Properties Inc.  
-----

(Exact name of small business issuer as specified in its charter)

Maryland  
-----

84-1240264  
-----

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

1780 South Bellaire Street  
Suite 515, Denver, Colorado  
-----

80222  
-----

(Address of principal executive offices)

(Zip Code)

(303) 297-1800  
-----

(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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   
-----                      -----

As of May 8, 2002 the Registrant had outstanding 6,709,454 shares of common stock, par value \$.001.

Transitional Small Business Disclosure Format (check one):

Yes                       No  X  
-----                      -----

Table of Contents

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Part I	Page No.
-----	-----
Item 1. Consolidated Financial Statements	
Consolidated Balance Sheets as of	
March 31, 2002 (unaudited) and December 31, 2001.....	3
Consolidated Statements of Operations for	
the Three Month Periods Ended March 31, 2002	
and 2001 (unaudited).....	4
Consolidated Statements of Cash Flows for	
the Three Month Periods Ended March 31, 2002 and 2001	
(unaudited).....	5
Notes to Consolidated Financial Statements	
(unaudited).....	6
 Item 2. Management's Discussion and Analysis of	
Financial Condition and Results of Operations.....	9
 Part II	
Item 6. Exhibits and Reports on Form 8-K.....	12

AMERIVEST PROPERTIES INC.  
CONSOLIDATED BALANCE SHEETS

	March 31, 2002 ----	December 31, 2001 ----
	(unaudited)	
ASSETS		
Investment in real estate-		
Land	\$ 14,137,891	\$ 14,137,891
Buildings and improvements	68,130,467	67,433,077
Furniture, fixtures and equipment	313,255	237,442
Tenant improvements	2,024,798	1,788,942
Tenant leasing commissions	351,908	302,337
Less: accumulated depreciation and amortization	(3,743,592)	(3,058,662)
	-----	-----
Net investment in real estate	81,214,727	80,841,027
 Cash and cash equivalents	628,781	1,119,355
Escrow deposits	852,207	673,213
Investment in unconsolidated affiliate	1,229,261	1,243,298
Due from related party	2,429,035	2,403,595
Accounts receivable	699,341	495,950
Deferred rents receivable	447,863	374,392
Deferred financing costs, net of accumulated amortization of \$159,381 and \$118,751, respectively	571,161	597,885

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Prepaid expenses and other assets	478,393	272,569
	-----	-----
Total assets	\$ 88,550,769	\$ 88,021,284
	=====	=====
LIABILITIES		
Mortgage loans and notes payable	\$ 58,616,715	\$ 58,408,424
Accounts payable and accrued expenses	1,529,495	838,605
Due to related party	513,852	494,531
Accrued real estate taxes	1,569,584	1,564,341
Prepaid rents and security deposits	829,769	883,116
Dividends payable	837,518	835,282
	-----	-----
Total liabilities	63,896,933	63,024,299
	-----	-----
STOCKHOLDERS' EQUITY		
Preferred stock, \$.001 par value		
Authorized - 5,000,000 shares		
Issued and outstanding - none	--	--
Common stock, \$.001 par value		
Authorized - 15,000,000 shares		
Issued and outstanding - 6,700,140 and 6,682,259 shares, respectively	6,700	6,682
Capital in excess of par value	31,236,039	31,132,650
Distributions in excess of accumulated earnings	(6,588,903)	(6,142,347)
	-----	-----
Total stockholders' equity	24,653,836	24,996,985
	-----	-----
Total liabilities and stockholders' equity	\$ 88,550,769	\$ 88,021,284
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

3

AMERIVEST PROPERTIES INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Month Periods Ended March 31, -----	
	2002	2001
	----	----
	(unaudited)	(unaudited)
REAL ESTATE OPERATING REVENUE		
Rental revenue	\$ 3,626,052	\$ 1,979,081
	-----	-----
REAL ESTATE OPERATING EXPENSES		
Property operating expenses-		
Operating expenses	886,095	586,649
Real estate taxes	367,023	147,980

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Management fees	28,062	101,301
General and administrative expenses	352,308	162,945
Interest expense	898,356	595,476
Depreciation and amortization expense	684,930	341,055
	-----	-----
	3,216,774	1,935,406
	-----	-----
OTHER INCOME		
Interest income	2,081	11,738
Equity in loss of unconsolidated affiliates	(20,397)	(10,843)
	-----	-----
	(18,316)	895
	-----	-----
NET INCOME	\$ 390,962	\$ 44,570
	=====	=====
NET INCOME PER COMMON SHARE		
Basic	\$ 0.06	\$ 0.01
	=====	=====
Diluted	\$ 0.06	\$ 0.01
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	6,696,961	2,990,868
	=====	=====
Diluted	6,863,423	3,012,600
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

4

AMERIVEST PROPERTIES INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Month Periods Ended March 31,	
	2002	2001
	-----	-----
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 390,962	\$ 44,570
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization expense	684,930	341,055
Amortization of deferred financing costs	40,630	18,608
Amortization of warrants	4,604	4,605
Equity in loss of unconsolidated affiliates	20,397	10,843
Accrued interest added to mortgage loans	--	123,894
Increase (decrease) in cash due to changes in:		
Accounts receivable	(203,391)	(79,204)

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Deferred rents receivable	(73,471)	(44,152)
Prepaid expenses and other assets	(205,824)	6,524
Accounts payable and accrued expenses	710,211	283,590
Other accrued liabilities	(48,104)	(391,895)
	-----	-----
Net cash from operating activities	1,320,944	318,438
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Improvements of real estate	(1,009,058)	(1,449,315)
Leasing commissions paid	(49,571)	(11,543)
(Increase) decrease in escrow deposits	(178,994)	60,210
	-----	-----
Net cash from investing activities	(1,237,623)	(1,400,648)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to mortgage loans and notes payable	300,000	645,310
Payments on mortgage loans and notes payable	(123,509)	(63,506)
Net proceeds from exercising of options and warrants	--	960,843
Deferred financing costs paid	(13,906)	--
Dividends paid	(736,480)	(372,118)
	-----	-----
Net cash from financing activities	(573,895)	1,170,529
	-----	-----
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(490,574)	88,319
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,119,355	1,046,976
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 628,781	\$ 1,135,295
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest during the period	\$ 831,593	\$ 423,907
	=====	=====
NON-CASH FINANCING ACTIVITIES:		
Stock issued to the Dividend Re-Investment Plan ("DRIP")	\$ 98,802	\$ --
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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AmeriVest Properties Inc. (the "Company") was incorporated under the laws of the State of Delaware on August 25, 1993 and was reincorporated in the State of Maryland in 1999. Effective January 1, 1996, the Company commenced operating as a real estate investment trust ("REIT"). The Company owns and operates, through its wholly-owned subsidiaries, the following properties:

Property -----	Location -----
Sheridan Plaza at Inverness	Englewood, CO
Sheridan Center	Denver, CO
Kellogg Building	Littleton, CO
Panorama Falls (a)	Englewood, CO
Arrowhead Fountains	Peoria, AZ
Keystone Office Park	Indianapolis, IN
Bank of America Buildings (b)	Texas
State of Texas Buildings (c)	Texas

- (a) 20% of the property is owned by the Company, 80% of the property is owned by Freemark Abbey Panorama, LLC as a tenant in common with the Company.
- (b) These four buildings are leased approximately 63% to Bank of America. The buildings are located in Mineral Wells, Georgetown, Henderson and Clifton, Texas.
- (c) These thirteen buildings are leased primarily to various agencies of the State of Texas. The buildings are located in Arlington, Paris, Marshall, Amarillo, El Paso (2), Belleville, Mission, Clint, Lubbock, Temple, Hempstead and Columbus, Texas.

### 2. Interim Financial Statements -----

The unaudited consolidated financial statements included herein were prepared from the records of the Company in accordance with accounting principles generally accepted in the United States and reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position for the interim periods. Such financial statements generally conform to the presentation reflected in the Company's Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2001. The consolidated results of operations for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. These financial statements and notes should be read together with the financial statements and notes included in the Company's Form 10-KSB for the year ended December 31, 2001.

### 3. New Accounting Pronouncements -----

In June 2001, the Financial Accounting Standards Board ("FASB") authorized the issuance of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 142, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information", operating segment or one level lower. Goodwill will no longer be allocated to other long-lived assets for impairment testing under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". Under SFAS No. 142, intangible assets with indefinite lives will not be amortized. Instead they will be carried at the lower of cost or market value and

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tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The Company's adoption of SFAS No. 142 will not have an impact on its financial statements, as it has not recorded any goodwill or intangible assets.

6

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement", which is effective for financial statements issued for fiscal years beginning after June 15, 2002. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is currently evaluating the potential impact, if any, the adoption of SFAS No. 143 will have on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for fiscal periods beginning after December 15, 2001 and interim periods within those fiscal years. SFAS No. 144 establishes an accounting model for impairment or disposal of long-lived assets to be disposed of by sale. The Company's adoption of SFAS No. 144 had no impact on its financial statements.

#### 4. Agreement with Sheridan Realty Advisors, LLC

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Effective January 1, 2000 through December 31, 2001, all of the Company's properties were managed under a Property Management and Advisory Agreement (as amended on March 12, 2001, the "Agreement") with Sheridan Realty Advisors, LLC ("SRA"), which also managed the day-to-day operations of the Company and assisted and advised the Board of Directors on real estate acquisitions and investment opportunities. Certain senior members of SRA are members of the Company's management team and of the Company's Board of Directors. In accordance with the Agreement, SRA received an administrative fee, a property management and accounting fee, an advisory fee and a capital project fee for these services. The property management fee was calculated as 5% of gross collected rents, the advisory fee is calculated as 5% of capital deployed for real property acquisitions and the capital project fee is calculated as 3% of the total cost of capital projects in excess of \$100,000.

The Agreement was further amended and restated as of December 31, 2001 to provide for the Company's acquisition of SRA's administrative and property management and accounting services business, along with elimination of those related fees, effective January 1, 2002. As a result, most of SRA's employees, including three of the Company's senior executives, became employees of the Company and manage the day-to-day operations. The three senior executives will also remain employees of SRA. SRA will continue to advise the Company with respect to capital markets activity, real estate acquisitions and dispositions and major capital projects. For these services, SRA will continue to earn the advisory and capital project fees under the amended and restated Agreement.

During 2000, SRA received incentive compensation in the form of five-year warrants to purchase up to 750,000 shares of common stock at \$5.00 per share. Issuance of the warrants was approved by the shareholders at the annual meeting on June 6, 2000. According to the Agreement, 225,000 of these warrants were granted and vested on the approval date. These vested warrants have an estimated fair value of \$73,668, which is being amortized over the life of the Agreement. The remaining 525,000 warrants vest in an amount equal to 2.1% of capital deployed for real property acquisitions. As of March 31, 2002, 436,457 of the remaining 525,000 warrants vested and have an estimated fair value of \$261,691,

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which has been capitalized with the related acquisition costs on the accompanying consolidated balance sheets.

### 5. Mortgage Loans and Notes Payable

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The Company has a short-term revolving credit line from a bank in the amount of \$300,000 and a \$1,500,000 short-term unsecured credit line from Sheridan Investments, LLC, a related party. At March 31, 2002, the Company had an outstanding balance of \$300,000 on the bank line with an interest rate of 5.75%, and no outstanding balance on the Sheridan Investments, LLC line.

7

### 6. Subsequent Events

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On April 4, 2002, the Company drew down the remaining available amount of \$1,030,201 on its loan from US Bank for a total outstanding balance of \$10,500,000. The loan is secured by a mortgage on Sheridan Center.

On April 30, 2002, the Company drew down \$1,000,000 on its credit line from Sheridan Investments, LLC, a related party, to be used as working capital.

8

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

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The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto included in this Form 10-QSB and elsewhere.

### Results Of Operations

-----

Comparison of the three months ended March 31, 2002 to the three months ended March 31, 2001

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	Three Month Periods Ended		Change
	2002	2001	
	-----	-----	-----
Rental revenue	\$ 3,626,052	\$ 1,979,081	\$ 1,646,971
	-----	-----	-----

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Property operating expenses-			
Operating expenses	886,095	586,649	299,446
Real estate taxes	367,023	147,980	219,043
Management fees	28,062	101,301	(73,239)
General and administrative expenses	352,308	162,945	189,363
Interest expense	898,356	595,476	302,880
Depreciation and amortization expense	684,930	341,055	343,875
	3,216,774	1,935,406	1,281,368
Other income-			
Interest income	2,081	11,738	(9,657)
Equity in loss of unconsolidated affiliates	(20,397)	(10,843)	(9,554)
	(18,316)	895	(19,211)
Net income	\$ 390,962	\$ 44,570	\$ 346,392

### Rental Revenue

The increase in rental revenue is due primarily to the inclusion of the operations of Sheridan Plaza at Inverness, LLC (acquired in April 2001), Arrowhead Fountains (acquired in November 2001) and the Kellogg Building (acquired in December 2001), offset by the exclusion of the operations of the Giltedge building (sold in June 2001) and the Panorama Falls building (80% of which was sold in December 2001).

### Property Operating Expenses

Operating expenses and real estate taxes increased as a result of the above-mentioned transactions.

The decrease in management fees is due to the Company's acquisition of Sheridan Realty Advisors, LLC ("SRA") administrative and property management and accounting services business, along with elimination of those related fees, effective January 1, 2002. As a result, most of SRA's employees became employees of the Company and manage the day-to-day operations, and the Company became a self-administered REIT. Subsequent to January 1, 2002, management fees will decrease and general and administrative expenses will increase due to the Company being internally managed versus externally managed in 2000 and 2001.

### General and Administrative Expenses

The increase in general and administrative expenses is due to the above-mentioned acquisition of SRA's administrative and property management and accounting services business.

### Interest Expense

The increase in interest expense is due to the increase in debt outstanding at March 31, 2002 by approximately 103% from the prior year. The effect of the

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increase in debt level is partially offset by a decrease in interest rates, which resulted in lower interest costs on the Company's variable rate debt.

### Depreciation and Amortization Expense

The increase in depreciation and amortization expense is due to the overall increase in depreciable assets resulting from the acquisitions discussed above.

### Interest Income

Interest income decreased due to lower average outstanding cash balances and lower interest rates during the first quarter of 2002.

### Equity in Loss of Unconsolidated Affiliates

The equity in loss of unconsolidated affiliate recognized in 2002 represents the Company's share of the net loss of Panorama Falls. The Company sold 80% of its interest in Panorama Falls in December 2001, retaining its current 20% interest.

The amount recognized in 2001 represents the Company's share of the net loss of Sheridan Investments, LLC (which owned Sheridan Plaza at Inverness, LLC). The original 9.639% interest in Sheridan Investments, LLC was acquired in September 2000. This interest was then used as partial consideration for the acquisition of 100% of Sheridan Plaza at Inverness, LLC in April 2001.

### Liquidity And Capital Resources

#### Liquidity

Net cash from operations for the three months ended March 31, 2002 was approximately \$1.3 million and is the primary source of liquidity to fund distributions, debt service and capital expenditures. The Company also has lines of credit available to assist with such cash needs.

Management believes that the cash flow from its existing properties, together with its existing lines of credit, will be sufficient to meet the Company's working capital needs for the next year and beyond.

The Company desires to acquire additional properties. In order to do so, it will need to raise additional debt or equity capital. The Company also intends to obtain credit facilities for short and long-term borrowing with commercial banks or other financial institutions. The issuance of such securities or increase in debt for additional properties, of which there is no assurance, could adversely affect the amount of cash available to pay dividends to stockholders.

#### Financing

Mortgage loans are collateralized by all properties. The following table details the scheduled maturities of mortgages as of March 31, 2002:

2002	\$ 396,268
2003	22,362,859
2004	9,654,927
2005	488,010
2006	14,579,886
Thereafter	10,834,765

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Total	\$58,316,715 =====
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Included in the 2003 maturities is the outstanding balance on the mortgage loan on Panorama Falls in the amount of \$3,036,294. Although the Company sold 80% of its interest in the property, the Company has retained 100% of the loan balance on its balance sheet due to its continued obligation. As an offset, the Company has recorded a receivable for 80% of this amount as due from related party, with the remaining 20% included in the investment in unconsolidated affiliate balance.

10

As of March 31, 2002, total mortgage loans (including the Panorama Falls mortgage loan) consisted of approximately \$27.1 million of fixed rate debt with a weighted-average interest rate of approximately 7.9% and approximately \$31.2 million of variable rate debt with a weighted-average interest rate of approximately 4.5%. The Company intends to secure long-term financing at a fixed interest rate to replace certain of its variable rate debt in late 2002.

The Company has a short-term revolving credit line from a bank in the amount of \$300,000 and a \$1,500,000 short-term unsecured credit line from Sheridan Investments, LLC, a related party. At March 31, 2002, the Company had an outstanding balance of \$300,000 on the bank line with an interest rate of 5.75%, and no outstanding balance on the Sheridan Investments, LLC line. On April 30, 2002, the Company drew down \$1,000,000 on the Sheridan Investments, LLC line to be used as working capital.

On April 4, 2002, the Company drew down the remaining available amount of \$1,030,201 on its loan from US Bank for a total outstanding balance of \$10,500,000. The loan is secured by a mortgage on Sheridan Center.

### Inflation -----

Management believes that inflation should not have a material adverse effect on the Company. The Company's office leases require the tenants to pay increases in operating expenses should any inflationary pressures materialize.

### Forward-Looking Statements -----

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Exchange Act of 1934. Although the Company believes that the expectations reflected in the forward-looking statements and the assumptions upon which the forward-looking statements are based are reasonable, it can give no assurance that such expectations and assumptions will prove to have been correct. See the Company's Annual Report on Form 10-KSB for additional statements concerning important factors, including occupancy and rental rates and operating costs that could cause actual results to differ materially from the Company's expectations.

11

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Item 6. Exhibits And Reports On Form 8-K.  
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- (a) On January 4, 2002, the Registrant filed a Current Report on Form 8-K describing the acquisition of the Kellogg Building.
- (b) On January 23, 2002, the Registrant filed a Current Report on Form 8-K describing materials that may be presented during meetings with analysts and others.
- (c) On January 23, 2002, the Registrant filed a Current Report on Form 8-K/A-1 as an amendment to the Current Report on Form 8-K filed on November 21, 2001 and included disclosures under "Item 7. Financial Statements and Exhibits" as required for the acquisition of Arrowhead Fountains.
- (d) On February 28, 2002, the Registrant filed a Current Report on Form 8-K/A-1 as an amendment to the Current Report on Form 8-K filed on January 4, 2002 and included disclosures under "Item 7. Financial Statements and Exhibits" as required for the acquisition of the Kellogg Building.

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

AMERIVEST PROPERTIES INC.

May 8, 2002

By: /s/ D. Scott Ikenberry  
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D. Scott Ikenberry  
Chief Financial Officer