

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

AMERIVEST PROPERTIES INC
Form 10QSB
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 2001.

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

(State or other jurisdiction of
incorporation or organization)

84-1240264

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

1780 South Bellaire Street, Suite 515
Denver, Colorado

80222

(Zip Code)

(303) 297-1800

(Issuer'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 No

As of August 14, 2001 the Registrant had outstanding 6,350,796 shares of common stock, par value \$.001.

Transitional Small Business Disclosure Format (check one):

Yes No

AMERIVEST PROPERTIES INC. AND SUBSIDIARIES

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

FORM 10-QSB
JUNE 30, 2001

Table of Contents

Part I -----	Page No. -----
Item 1. Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets as of June 30, 2001 (unaudited) and December 31, 2000	3
Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2001 and 2000 (unaudited)	4
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2001 and 2000 (unaudited)	5
Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
 Part II -----	
Item 2. Changes in Securities and Use of Proceeds; Recent Sales Of Unregistered Securities	15
Item 4. Submission of Matters to a Vote of Security Holders	15
Item 5. Other Information	16
Item 6. Exhibits and Reports on Form 8-K	16

2

AMERIVEST PROPERTIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	June 30, 2001 ----- (Unaudited)	December 31, 2000 -----
ASSETS		
Investment in real estate		
Land	\$ 9,960,376	\$ 8,761,566
Buildings and improvements	49,507,032	32,210,274

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Furniture, fixtures and equipment	152,445	68,793
Tenant improvements	1,207,454	645,429
Tenant leasing commissions	233,484	585,887
Less accumulated depreciation and amortization	(2,206,642)	(3,349,569)
	-----	-----
Net Investment in Real Estate	58,854,149	38,922,380
Cash and cash equivalents	720,799	1,046,976
Investment in unconsolidated affiliate, net	--	584,640
Accounts receivable	292,061	52,328
Deferred rents receivable	273,329	524,581
Deferred financing costs, net	490,687	411,634
Prepaid expenses, escrows and other assets	1,129,583	821,258
	-----	-----
Total Assets	\$ 61,760,608	\$ 42,363,797
	=====	=====
LIABILITIES		
Mortgage loans and notes payable	\$ 42,056,282	\$ 28,122,856
Accounts payable and accrued expenses	3,224,848	1,025,466
Accrued real estate taxes	555,220	747,647
Prepaid rents and security deposits	969,989	737,207
Dividends payable	541,399	372,118
	-----	-----
Total Liabilities	47,347,738	31,005,294
	-----	-----
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 - 4,331,188 and 2,976,939 shares, respectively	4,331	2,977
Capital in excess of par value	19,617,018	11,879,099
Distributions in excess of accumulated earnings	(5,208,479)	(523,573)
	-----	-----
Total Stockholders' Equity	14,412,870	11,358,503
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 61,760,608	\$ 42,363,797
	=====	=====

The accompanying notes to condensed consolidated financial statements are an integral part of these consolidated balance sheets.

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REAL ESTATE OPERATING REVENUE				
Rental Revenue				
Commercial properties	\$ 2,819,810	\$ 1,415,504	\$ 4,798,891	\$ 2,7
Storage properties	--	329,132	--	6
	-----	-----	-----	-----
	2,819,810	1,744,636	4,798,891	3,3
	-----	-----	-----	-----
REAL ESTATE OPERATING EXPENSES				
Property operating expenses				
Operating expenses	681,249	478,525	1,267,898	8
Real estate taxes	226,222	173,172	374,202	3
Management fees	141,545	81,114	242,846	1
General and administrative	195,336	109,728	358,281	2
Impairment of deferred rents receivable	326,113	--	326,113	
Interest	894,575	505,516	1,490,051	9
Depreciation and amortization	792,011	293,530	1,133,066	5
	-----	-----	-----	-----
	3,257,051	1,641,585	5,192,457	3,1
	-----	-----	-----	-----
OTHER INCOME				
Interest income	9,444	7,818	21,182	
Equity in loss of unconsolidated affiliate	--	--	(10,843)	
	-----	-----	-----	-----
	9,444	7,818	10,339	
	-----	-----	-----	-----
INCOME (LOSS) BEFORE GAIN ON SALE OF REAL ESTATE				
	(427,797)	110,869	(383,227)	2
	-----	-----	-----	-----
GAIN ON SALE OF REAL ESTATE				
	1,143,698	--	1,143,698	
	-----	-----	-----	-----
NET INCOME				
	\$ 715,901	\$ 110,869	\$ 760,471	\$ 2
	=====	=====	=====	=====
NET INCOME PER COMMON SHARE				
Basic	\$ 0.22	\$ 0.05	\$ 0.24	\$
	=====	=====	=====	=====
Diluted	\$ 0.21	\$ 0.05	\$ 0.23	\$
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	3,268,056	2,228,850	3,130,227	2,2
	=====	=====	=====	=====

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Diluted	3,413,289	2,229,687	3,248,541	2,2
	=====	=====	=====	=====

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

4

AMERIVEST PROPERTIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2001	200
	(Unaudited)	(Unaudi
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 760,471	\$ 225
Adjustments to reconcile net income to net cash from operating activities-		
Gain on sale of real estate	(1,143,698)	
Depreciation and amortization	1,133,066	569
Amortization of deferred financing costs	45,732	26
Amortization of warrants	29,869	
Equity in loss of unconsolidated affiliate	10,843	
Impairment of deferred rents receivable	326,113	
Accrued interest added to mortgage payable	123,894	46
Changes in assets and liabilities-		
(Increase) decrease in accounts receivable	(122,213)	21
Increase in deferred rents receivables	(74,861)	(126
Decrease (increase) in prepaid expenses, escrows and other assets	48,733	(26
Increase in accounts payable and accrued expenses	345,589	309
(Decrease) increase in other accrued liabilities	(605,133)	230
	-----	-----
Net cash from operating activities	878,405	1,276
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Improvements of real estate	(3,419,118)	(6,025
Net proceeds from the sale of real estate	458,030	
Acquisition of Sheridan Plaza at Inverness, LLC, net of cash acquired	(344,432)	
Leasing commissions paid	(45,838)	(419
Release of escrow deposit	--	509
	-----	-----
Net cash from investing activities	(3,351,358)	(5,935
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to mortgage loans and notes payable	2,390,330	5,444
Payments on mortgage loans and notes payable	(423,599)	(169
Net proceeds from exercising of options and warrants	972,093	
Deferred financing costs paid	(23,507)	(49
Dividends paid	(768,541)	(534
	-----	-----

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Net cash from financing activities	2,146,776	4,691
	-----	-----
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(326,177)	33
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,046,976	458
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 720,799	\$ 491
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest during the period	\$ 1,321,243	\$ 879
	=====	=====

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

5

AMERIVEST PROPERTIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000 (Unaudited)

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

During the six months ended June 30, 2001, the Company incurred \$4,387,992 in costs related to the improvement of Sheridan Center, which are included in investment in real estate on the accompanying balance sheet. Of these costs, \$1,738,103 were unpaid at June 30, 2001 and are included in accounts payable and accrued expenses on the accompanying balance sheet.

On June 1, 2001, the Company sold its Giltedge office building for \$3,650,000. From the cash at closing, \$3,111,624 was used to repay the outstanding principal balance on the mortgage loan secured by the property.

On June 7, 2001, the Company issued 100,211 shares of common stock to an affiliate of the property manager of the Company's buildings that are leased to agencies of the State of Texas, an unrelated third party, as consideration for improvements made to a property. For accounting purposes, the shares were valued at \$557,175 (\$5.56 per share) and are included in investment in real estate on the accompanying balance sheet.

On June 26, 2001, the Company purchased from Sheridan Investments, LLC, an affiliate, 100% of the ownership interests of Sheridan Plaza at Inverness, LLC, an affiliate. For accounting purposes, the purchase price was \$22,895,067, which consisted of:

- o \$705,135 for the Company's 9.639% preferred membership interest in Sheridan Investments, LLC, the owner of all of the membership interests in Sheridan Plaza at Inverness LLC, which was transferred back to Sheridan Investments, LLC;

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

- o \$6,474,329 paid with (1) 1,057,346 shares of common stock at a rate of \$5.69 per share (as required for accounting purposes, based on an average market price of the shares over a period of several days before and after the date of the announcement of the acquisition) and (2) the cash proceeds of \$458,030 from the sale of the Giltedge office building;
- o assumption of the mortgage in the principal amount of \$14,954,425 secured by the property; and
- o assumption of other liabilities in the amount of \$761,178.

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

6

AMERIVEST PROPERTIES INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2001 (Unaudited)

1. Organization

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 self-administered and self-managed real estate investment trust ("REIT"). The Company owns and operates, through its wholly owned subsidiaries, an office building complex in Indianapolis, Indiana, eighteen commercial office properties in the State of Texas, and an office building, a two-building office complex and a three-building office complex in Denver, Colorado.

2. General

The unaudited condensed 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/A-2 filed with the Securities and Exchange Commission for the year ended December 31, 2000.

The consolidated results of operations for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

Certain prior period balances have been reclassified to conform to current period presentation.

3. New Technical Pronouncements

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Company was required to adopt SFAS No. 133 as of January 1, 2001. SFAS No. 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. The Company's adoption of SFAS No. 133 did not have a material impact on its financial statements.

In June 2001, the FASB authorized the issuance of SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 requires intangible assets to be recognized if they arise from contractual or legal rights or are "separable", i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognized under SFAS No. 141 than its predecessor, Accounting Principles Board ("APB") Opinion No.16 although in some instances previously recognized intangibles will be subsumed into goodwill.

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

7

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 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". Additionally, goodwill on equity method investments will no longer be amortized; however, it will continue to be tested for impairment in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". 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 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, although goodwill on business combinations consummated after July 1, 2001 will not be amortized and goodwill on prior business combinations will cease to be amortized. Had the Company adopted SFAS No. 142 at January 1, 2000, there would have been no effect on the Company's financial statements. The Company's adoption of these statements will not have an impact on its financial statements, as it has not recorded any goodwill or intangible assets.

4. Agreement with Sheridan Realty Advisors, LLC

Effective January 1, 2000, all of the Company's properties are managed under an agreement (the "Agreement") with Sheridan Realty Advisors, LLC ("SRA"), which also manages day-to-day operations of the Company and assists and advises 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. SRA receives an administrative fee, a property management and accounting fee, an advisory fee and a development fee for these services. In addition, SRA received incentive compensation in the form of five-year warrants to purchase up to 750,000 shares of common stock at \$5 per share. Issuance of the warrants was approved by the shareholders at the annual meeting on June 6, 2000. In accordance with the Agreement, 225,000 of these

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

warrants were granted and vested on the approval date. The remaining 525,000 warrants vest in an amount equal to 2.1% of equity capital deployed for real property acquisitions, of which, 48,795 had vested as of December 31, 2000. During the six months ended June 30, 2001, 219,291 of the remaining warrants vested and have an estimated fair value of \$163,838, which has been capitalized with the related acquisition costs on the accompanying balance sheet.

5. Stock Offering

On July 27, 2001, our Registration Statement became effective with the Securities and Exchange Commission for an offering of 2,000,000 shares of common stock, with a 30-day option to the underwriter to purchase up to an additional 300,000 shares to cover over-allotments, at a price of \$5.50 per share. On August 1, 2001, the Company received \$10,230,000, net of the underwriting discounts and commissions, from the sale of the 2,000,000 shares. After payment of approximately \$295,000 in additional offering expenses, the proceeds will be used to acquire real estate properties, to repay debt, for capital improvements and/or to increase working capital. As of the date of this filing, the underwriter has not exercised the over-allotment option.

8

6. Acquisitions and Dispositions

On May 3, 2001, the Company entered into a contract to sell its Giltedge office building in Appleton, Wisconsin for \$3,650,000. The sale closed on June 1, 2001, resulting in a gain on sale of \$1,143,698 for accounting purposes. The cash proceeds from this transaction of \$458,030 were used to complete a tax-deferred exchange under Section 1031 of the Internal Revenue Code.

On May 1, 2001, the Company announced an agreement with Sheridan Investments, LLC, an affiliate, to purchase 100% of the ownership interests of Sheridan Plaza at Inverness, LLC, effective April 1, 2001. Sheridan Plaza at Inverness, LLC owns two office buildings located in Englewood, Colorado consisting of 118,720 total rentable square feet on approximately 6.7 acres of land with 405 total parking spaces, including 80 underground parking spaces. For accounting purposes, the purchase price was \$22,895,067, which consisted of:

- o \$705,135 for the Company's 9.639% preferred membership interest in Sheridan Investments, LLC, the owner of all of the membership interests in Sheridan Plaza at Inverness LLC, which was transferred back to Sheridan Investments, LLC;
- o \$6,474,329 paid with (1) 1,057,346 shares of common stock, \$.001 par value, at a rate of \$5.69 per share (as required for accounting purposes, based on an average market price of the shares over a period of several days before and after the date of the announcement of the acquisition) and (2) the cash proceeds of \$458,030 from the sale of the Giltedge office building;
- o assumption of the mortgage in the principal amount of \$14,954,425 secured by the property; and
- o assumption of other liabilities in the amount of \$761,178.

The acquisition was structured as a tax-deferred exchange of the Giltedge office building under Section 1031 of the Internal Revenue Code.

9

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

The following unaudited pro forma condensed operating results give effect to the sale of the Giltedge office building and the related purchase of Sheridan Plaza at Inverness, LLC as if the transactions had occurred at the beginning of the periods presented, and are included for informational purposes only. This pro forma information may not be indicative of what actual results of operations would have been if such transactions had in fact occurred on such dates, nor does it purport to represent the results of future operations. The pro forma adjustments are based upon currently available information and upon certain assumptions that management believes are reasonable.

	Six Months Ended June 30,	
	2001 ----	2000 ----
	(unaudited)	(unaudited)
Rental revenue	\$5,276,185	\$3,987,311
Net operating income	\$2,631,814	\$2,111,772
Net income	\$1,024,731	\$1,126,669
Net income per common share:		
Basic	\$ 0.25	\$ 0.33
Diluted	\$ 0.24	\$ 0.33

7. Mortgage Loans and Notes Payable

On June 7, 2001, the Company increased its available loan with US Bank National Association ("US Bank") secured by the Sheridan Center buildings from \$9,300,000 to \$10,500,000, of which \$8,844,546 was outstanding as of June 30, 2001. During the six months ended June 30, 2001, the Company was advanced an additional \$1,378,130 on its existing loan agreement with US Bank. The proceeds were used to fund construction costs related to the improvement of Sheridan Center. Additionally, the Company was advanced \$300,000 on its short-term revolving credit line from US Bank to meet working capital needs. This credit line was repaid in August 2001.

On June 13, 2001, the Company established a \$500,000 short-term unsecured line of credit with Sheridan Investments, LLC, an affiliate, with an interest rate equal to the prime lending rate of US Bank, and with all outstanding principal and any unpaid accrued interest due on June 13, 2002. As of June 30, 2001, \$400,000 has been borrowed and is outstanding under this facility. This credit line was repaid in August 2001.

In association with the acquisition of Sheridan Plaza at Inverness, LLC, the Company assumed a mortgage that had a principal balance of \$14,923,052 as of June 30, 2001. The mortgage is payable to Teachers Insurance and Annuity Association of America and is due January 10, 2006 with principal and interest (totaling \$108,835) payable monthly with the unpaid principal and interest due at maturity. The loan bears interest at a fixed rate of 7.9% per year.

8. Status of Significant Tenant and Related Impairment

On August 2, 2001, Rhythms NetConnections, Inc. ("Rhythms"), the primary tenant in the Company's Panorama Falls building in Englewood, Colorado, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. On August 10, 2001, Rhythms announced that it had terminated approximately 700 of its remaining 1,000 employees and notified all its customers that service will end in one month. As of the date of this filing, Rhythms has made all monthly rent payments due through August 2001 and the Company holds a security deposit from Rhythms in

the amount of \$335,000. However, due to the bankruptcy filing and the uncertainty of future rent collections, the Company has recorded an impairment for \$326,113 of unamortized deferred rents receivable and has accelerated the amortization of the \$323,447 unamortized lease commission related to the Rhythms lease during the quarter ended June 30, 2001. The deferred rents receivable represents the effects of recording, for accounting purposes, straight-line rent resulting from a free rent period at the inception of the lease in exchange for Rhythms' providing all tenant improvements. The rental revenue related to Rhythms' was approximately \$378,000 and \$480,000 for the six months ended June 30, 2001 and the year ended December 31, 2000, which is approximately 8% and 7%, respectively. The Company will recognize revenues related to future lease payments when the proceeds are received and will continue monitoring the bankruptcy proceedings to assess and develop its plan in regards to the situation. If Rhythms were to discontinue its payment of the lease payments due to the Company, it would result in a significant decrease of our rental revenue and our operating cash flow until such time as the Company is able to either collect any amounts past due or lease the currently occupied space to new tenants.

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

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 the Company's Form 10-KSB/A-2 and elsewhere.

Results Of Operations

Three Months Ended June 30, 2001, Compared With Three Months Ended June 30, 2000.

Real estate operating revenue increased by approximately \$1,075,000 and operating expenses, real estate taxes and general and administrative expenses increased by approximately \$203,000, \$53,000 and \$86,000, respectively, for the three-month period ended June 30, 2001 as compared to the same period in 2000, due primarily to the inclusion of the operations of the Panorama Falls building (acquired in May 2000) for a full quarter in 2001, the Sheridan Center office complex (acquired in August 2000) and Sheridan Plaza at Inverness, LLC (acquired in June 2001, effective April 1, 2001) and the Giltedge office building for only two months in 2001 (sold in June 2001) offset by the exclusion of the operations of the four self-storage facilities (sold in August 2000). Management fees increased by approximately \$60,000 in 2001 as a result of the net increase in operating revenue generated by the above mentioned transactions. Interest expense increased by approximately \$389,000 due to the increase in mortgage loans and notes payable, and depreciation and amortization increased by approximately \$498,000, of which approximately \$323,000 represents the accelerated amortization of the Rhythms lease commission during the second quarter of 2001 (see below for further detail), with the remainder due to the increase in depreciable real estate assets.

For accounting purposes, a gain of approximately \$1,144,000 was recognized on the sale of the Giltedge office building during the three months ended June 30, 2001.

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

As a result of the revenue and expense items described above, net income for the three months ended June 30, 2001 was \$715,901, or \$0.22 per share basic and \$0.21 per share diluted, as compared to \$110,869, or \$0.05 per share (basic and diluted), for the three months ended June 30, 2000.

Six Months Ended June 30, 2001, Compared With Six Months Ended June 30, 2000.

Real estate operating revenue increased by approximately \$1,441,000, and operating expenses, real estate taxes and general and administrative expenses increased by approximately \$377,000, \$44,000 and \$115,000, respectively, for the six-month period ended June 30, 2001 as compared to the same period in 2000, due primarily to the inclusion of the operations of the Panorama Falls building (acquired in May 2000) for a full six months in 2001, the Sheridan Center office complex (acquired in August 2000) and Sheridan Plaza at Inverness, LLC (acquired in June 2001, effective April 1, 2001) and the Giltedge office building for only

11

five months in 2001 (sold in June 2001) partially offset by the exclusion of the operations of the four self-storage facilities (sold in August 2000). Operating expenses also increased due to planned maintenance projects undertaken at several properties and increased utility costs. Management fees increased by approximately \$83,000 in 2001 as a result of the net increase in operating revenue generated by the above mentioned transactions. Interest expense increased by approximately \$535,000 due to the increase in mortgage loans and notes payable, and depreciation and amortization increased by approximately \$563,000 due to the accelerated amortization of the Rhythms lease commission described above, and the increase in depreciable real estate assets.

Interest income increased by approximately \$4,000 from 2000 due to the increase in the average outstanding balance of cash and cash equivalents and interest bearing escrows. The equity in loss of unconsolidated affiliate recognized in 2001 represents the Company's share of the net loss of Sheridan Investments, LLC. The Company acquired its interest in Sheridan Investments, LLC in September 2000. This interest was transferred back as a portion of the purchase price of Sheridan Plaza at Inverness, LLC.

For accounting purposes, a gain of approximately \$1,144,000 was recognized on the sale of the Giltedge office building during the six months ended June 30, 2001.

As a result of the revenue and expense items described above, net income for the six months ended June 30, 2001 was \$760,471, or \$0.24 per share basic and \$0.23 per share diluted, as compared to \$225,522, or \$.10 per share (basic and diluted), for the six months ended June 30, 2000.

Revenues for the six months ended June 30, 2001 include approximately \$378,000 of rental revenue from Rhythms NetConnections Inc., a corporation that has reported losses and announced on August 2, 2001, that it has filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. On August 10, 2001, Rhythms announced that it had terminated approximately 700 of its remaining 1,000 employees and notified all its customers that service will end in one month. As of the date of this filing, Rhythms has made all monthly rent payments due through August 2001. However, due to the bankruptcy filing and the uncertainty of future rent collections, the Company has recorded an impairment for \$326,113 of unamortized deferred rents receivable and has accelerated the amortization of the \$323,447 unamortized lease commission related to the Rhythms lease during the quarter ended June 30, 2001. The deferred rents receivable

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

represents the effects of recording, for accounting purposes, straight-line rent resulting from a free rent period at the inception of the lease in exchange for Rhythms' providing all tenant improvements. The rental revenue related to Rhythms' was approximately \$378,000 and \$480,000 for the six months ended June 30, 2001 and the year ended December 31, 2000, which is approximately 8% and 7%, respectively. The Company will recognize revenues related to future lease payments when the proceeds are received and will continue monitoring the bankruptcy proceedings to assess and develop its plan in regards to the situation. If Rhythms were to discontinue its payment of the lease payments due to the Company, it would result in a significant decrease of our rental revenue and our operating cash flow until such time as the Company is able to either collect any amounts past due or lease the currently occupied space to new tenants.

Liquidity And Capital Resources

From December 31, 2000 to June 30, 2001, net investment in real estate increased by approximately \$19,932,000. The net increase was primarily due to the acquisition of Sheridan Plaza at Inverness, LLC, the sale of the Giltedge office building and the continued renovation of Sheridan Center, net of depreciation for the six-month period of approximately \$1,133,000.

At June 30, 2001, the Company had approximately \$721,000 of cash and cash equivalents, including approximately \$430,000 of cash to be utilized for a stockholder dividend distribution, which was paid on July 17, 2001. As compared with December 31, 2000, accounts receivable increased by approximately \$240,000, prepaid expenses, escrow and other assets increased by approximately \$308,000 and net deferred financing costs increased by approximately \$79,000 due primarily to the above mentioned acquisition and sale.

12

Mortgage loans and notes payable increased by approximately \$13,933,000, primarily due to the assumption of the Sheridan Plaza at Inverness, LLC mortgage loan in the principal amount of approximately \$14,954,000, additional advances on existing mortgage loans and lines of credit offset by the payoff of the Giltedge mortgage loan of approximately \$3,112,000 upon the sale of that building and scheduled principal payments. Accounts payable and accrued expenses increased by approximately \$2,199,000, primarily due to the increased costs related to the renovation of Sheridan Center. Accrued real estate taxes decreased by approximately \$192,000 due to the payment of 2000 real estate taxes in 2001 offset by the accrual for the six-month period. Prepaid rents and security deposits increased by approximately \$233,000 due primarily to the Sheridan Plaza at Inverness, LLC acquisition. Dividends payable increased by approximately \$169,000, which is attributable to the increase in the number of shares of common stock outstanding.

On July 27, 2001, our Registration Statement became effective with the Securities and Exchange Commission for an offering of 2,000,000 shares of common stock, with a 30-day option to the underwriter to purchase up to an additional 300,000 shares to cover over-allotments, at a price of \$5.50 per share. On August 1, 2001, the Company received \$10,230,000, net of the underwriting discounts and commissions, from the sale of the 2,000,000 shares. After payment of approximately \$295,000 in additional offering expenses, the proceeds will be used to acquire real estate properties, to repay debt, for capital improvements and/or to increase working capital. As of the date of this filing, the underwriter has not exercised the over-allotment option.

The Company desires to acquire properties in addition to those which will be

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

acquired with the public offering proceeds. 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.

Management believes that the proceeds of its recent offering and cash flow from its properties, together with its existing lines of credit, will be sufficient to meet the Company's working capital needs for the next year. The Company has a short-term revolving credit line from US Bank in the amount of \$300,000 and a \$500,000 short-term unsecured line of credit with Sheridan Investments, LLC, a related party. At June 30, 2001, the Company had outstanding balances of \$300,000 and \$400,000, respectively, on these lines of credit. The Company repaid both of these lines of credit in August 2001.

On August 2, 2001, Rhythms NetConnections, Inc., the primary tenant in the Panorama Falls building, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. On August 10, 2001, Rhythms announced that it had terminated approximately 700 of its remaining 1,000 employees and notified all its customers that service will end in one month. As of the date of this filing, Rhythms has made all monthly rent payments due through August 2001 and the Company holds a security deposit from Rhythms in the amount of \$335,000. The rental revenue related to Rhythms' was approximately \$378,000 and \$480,000 for the six months ended June 30, 2001 and the year ended December 31, 2000, which is approximately 8% and 7%, respectively. The Company will recognize revenues related to future lease payments when the proceeds are received and will continue monitoring the bankruptcy proceedings to assess and develop its plan in regards to the situation. If Rhythms were to discontinue its payment of the lease payments due to the Company, it would result in a significant decrease of our rental revenue and our operating cash flow until such time as the Company is able to either collect any amounts past due or lease the currently occupied space to new tenants.

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.

13

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/A-2 and the Company's Amendment No. 2 to Registration Statement on Form SB-2 filed on July 26, 2001 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.

14

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Part II. Other Information

Item 2. Changes in Securities and Use of Proceeds; Recent Sales Of Unregistered Securities

During the quarter ended June 30, 2001, the Company made the following issuances of securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act"):

On June 7, 2001, the Company issued 100,211 shares of common stock to an affiliate of the property manager of the Company's properties that are leased to various agencies of the State of Texas buildings, an unrelated third party, as consideration for improvements made to one of those properties. For accounting purposes, the shares were valued at \$557,175 (\$5.56 per share) and are included in investment in real estate on the balance sheet included in this Form 10-QSB. The issuance of the shares of common stock was made pursuant to an exemption from registration in accordance with Sections 3(b) and/or 4(2) of the Securities Act.

On June 26, 2001, the Company issued 1,057,346 shares of common stock, \$.001 par value, at a rate of \$5.69 per share (as required for accounting purposes, based on an average market price of the shares over a period of several days before and after the date of the announcement of the acquisition) to Sheridan Investments, LLC, an affiliate of the Company's advisor, as a portion of the purchase price for 100% of the ownership interests of Sheridan Plaza at Inverness, LLC, effective April 1, 2001. Sheridan Plaza at Inverness, LLC owns two office buildings located in Englewood, Colorado consisting of 118,720 total rentable square feet on approximately 6.7 acres of land with 405 total parking spaces, including 80 underground parking spaces. The issuance of the shares of common stock was made pursuant to an exemption from registration in accordance with Sections 3(b) and/or 4(2) of the Securities Act.

Item 4. Submission Of Matters To A Vote Of Security Holders

The Company held its annual meeting of stockholders on June 20, 2001. At the annual meeting, each of Robert W. Holman, Jr., Charles K. Knight and Jerry J. Tepper were elected as Class 2 directors of the Company by the votes set forth below. Following the meeting, James F. Etter, Harry P. Gelles, and John A. Labate continued as Class 1 directors and William T. Atkins and Robert J. McFann continued as Class 3 directors. The stockholders approved all the matters presented at the meeting by the following votes:

- (1) For election of the following nominees as Class 2 directors of the Corporation:

[At least 1,585,691 shares voting in favor (a majority of the total number of shares represented at the meeting) were needed to elect each nominee.]

Name	Shares For	Shares Against	Shares Abstained	Shares Not Voting
Robert W. Holman, Jr.	2,583,685.0471	0	2,711	0
Charles K. Knight	2,583,685.0471	0	2,711	0
Jerry J. Tepper	2,583,685.0471	0	2,711	0

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

- (2) Proposal to issue up to 1,121,209 shares of our common stock at \$5.55 per share as a portion of the purchase price for Sheridan Plaza at Inverness LLC whose sole assets are two office buildings located in Denver, Colorado.

15

[At least 1,585,691 shares voting in favor (a majority of the total number of shares represented at the meeting) were needed to approve this proposal.]

1,784,652.0471	shares voting for
17,636	shares voting against
6,900	shares abstaining
777,208	shares not voting

- (3) Proposal to ratify the selection of Arthur Andersen LLP as the Corporation's certified independent accountants.

[At least 1,585,691 shares voting in favor (a majority of the total number of shares represented at the meeting) were needed to approve this proposal.]

2,574,146.0471	shares voting for
450	shares voting against
11,800	shares abstaining
0	shares not voting

Item 5. Other Information

None.

Item 6. Exhibits And Reports On Form 8-K.

- (a) During the quarter ended June 30, 2001, the Registrant did not file any Current Reports on Form 8-K.
- (b) Exhibits:
Exhibit 99.1 - Press Release dated August 13, 2001.

SIGNATURES

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

AMERIVEST PROPERTIES INC.

August 14, 2001

By: /s/ D. Scott Ikenberry

D. Scott Ikenberry
Chief Financial Officer

