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BNP RESIDENTIAL PROPERTIES INC  
Form 10-K  
March 07, 2005

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

FORM 10-K

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

For the fiscal year ended December 31, 2004  
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OR

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

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

Commission File Number 1-9496

BNP RESIDENTIAL PROPERTIES, INC.  
(Exact name of registrant as specified in its charter)

Maryland 56-1574675  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

301 S. College St., Suite 3850, Charlotte, NC 28202-6024  
-----  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 704/944-0100  
-----

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

Title of each class	Name of each exchange on which registered:
Common Stock, par value \$.01 per share -----	American Stock Exchange -----

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes X No \_\_\_

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The aggregate market value of the common stock held by non-affiliates of the registrant at February 23, 2005, was approximately \$144.2 million.

The number of shares of the registrant's common stock outstanding on February 23, 2005, was 9,101,667.

Index to exhibits at page 82

## BNP RESIDENTIAL PROPERTIES, INC. TABLE OF CONTENTS

Item No.	FINANCIAL INFORMATION
	PART I
1	Business
2	Properties
3	Legal Proceedings
4	Submission of Matters to a Vote of Security Holders
X	Executive Officers of the Registrant
	PART II
5	Market for Registrant's Common Equity, Related Stockholder Matters and Is Purchases of Equity Securities
6	Selected Financial Data
7	Management's Discussion and Analysis of Financial Condition and Results of Operations
7A	Quantitative and Qualitative Disclosures About Market Risk
8	Financial Statements and Supplementary Data
9	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure
9A	Controls and Procedures
9B	Other Information
	PART III
10	Directors and Executive Officers of the Registrant
11	Executive Compensation
12	Security Ownership of Certain Beneficial Owners and Management
13	Certain Relationships and Related Transactions
14	Principal Accounting Fees and Services
	PART IV
15	Exhibits, Financial Statement Schedules, and Reports on Form 8-K
	Signatures

### PART I

#### ITEM 1. BUSINESS

Company Profile

## Edgar Filing: BNP RESIDENTIAL PROPERTIES INC - Form 10-K

BNP Residential Properties, Inc. is a self-administered and self-managed real estate investment trust ("REIT") focused on owning and operating apartment communities. We own and operate 25 apartment communities containing a total of 6,113 apartments. We also provide third-party management services for seven apartment communities containing a total of 1,799 apartments. In January 2005, we acquired an economic interest in and became the general partner of the entities owning three of the seven apartment communities for which we provide management services. We have previously announced that we have entered into contracts to acquire the remaining four managed apartment communities. In addition to our apartment communities, we own 40 restaurant properties that we lease on a triple-net basis to a restaurant operator under a master lease. We currently operate in the states of North Carolina, South Carolina and Virginia.

BNP Residential Properties, Inc. is structured as an UpREIT, or "umbrella partnership real estate investment trust." We are the sole general partner and own a controlling interest in BNP Residential Properties Limited Partnership, through which we conduct all of our operations. We refer to this partnership as the operating partnership. We refer to the limited partners of the operating partnership as "minority common unitholders" or "minority interest." We currently own 83% of the outstanding operating partnership common units and 100% of the outstanding operating partnership preferred units.

As of February 23, 2005, we have 9,101,667 shares of common stock and 909,090 shares of preferred stock outstanding. We have 1,300 shareholders of record. We estimate that there are 4,350 beneficial owners of our common stock. Our shares are listed on the American Stock Exchange, trading under the symbol "BNP." The operating partnership has an additional 1,865,927 operating partnership minority common units outstanding.

We have 220 employees, including management, accounting, legal, acquisitions, development, property management, leasing, maintenance and administrative personnel. Our executive offices are located at 301 South College Street, Suite 3850, Charlotte, North Carolina 28202-6024, and our telephone number is 704/944-0100.

In addition to this Annual Report, we file quarterly and special reports, proxy statements and other information with the SEC. All documents that we file with the SEC are available free of charge on our corporate website, which is [www.bnp-residential.com](http://www.bnp-residential.com). You may also read and copy any document that we file at the public reference facilities of the SEC at 450 Fifth Street NW, Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information about the public reference facilities. These documents also may be accessed through the SEC's electronic data gathering, analysis and retrieval system ("EDGAR") via electronic means, including the SEC's home page on the Internet (<http://www.sec.gov>). In addition, since some of our securities are listed on the American Stock Exchange, you can read our SEC filings at the offices of the American Stock Exchange, 86 Trinity Place, New York, New York 10006.

### History and Development of BNP Residential Properties, Inc.

The company was originally incorporated in the state of Delaware in 1987. Beginning in 1987, we elected to be taxed as a REIT under the Internal Revenue Code. As such, we generally are not, and will not be, subject to federal or state income taxes on net income. As a REIT, we are subject to a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our REIT taxable income as dividends.

In 1987, we purchased 47 existing restaurant properties located in North Carolina and Virginia for an aggregate purchase price of \$43.2 million.

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From 1987 through 1992, our assets consisted primarily of

3

these 47 restaurant properties. During this period we operated as an externally administered and externally managed REIT. We leased the restaurants on a triple-net basis to Boddie-Noell Enterprises, Inc. ("Enterprises"), a Hardee's franchisee, under a master lease. A master lease is a single lease that covers multiple properties, while a triple-net lease is one where the lessee pays all operating expenses, maintenance, property insurance and real estate taxes.

In 1993, we began to change our focus from restaurant properties to apartment communities, with the objective of increasing funds from operations and enhancing shareholder value. In 1994 we acquired BT Venture Corporation, an integrated real estate company specializing in the management, development and acquisition of apartment properties, and began operating as a self-administered and self-managed REIT.

In 1997, we reincorporated in the state of Maryland and reorganized to our present UpREIT structure. Through our UpREIT structure, we can acquire properties in exchange for operating partnership units and trigger no immediate tax obligation for certain sellers. We believe that our conversion to an UpREIT enables us to acquire properties not otherwise available or at lower prices because of the tax advantages to certain property sellers of receiving limited partnership interests instead of cash as consideration. Minority unitholders will generally be able to redeem their units for cash or, at our option as general partner, for shares of common stock of the company on a one-for-one basis. Distributions of cash from the operating partnership are allocated between the REIT and the minority unitholders based on their respective unit ownership.

In December 2001, our Board of Directors authorized the issuance of Series B Cumulative Convertible Preferred Stock. Between 2001 and 2003, we issued a total of 909,090 shares of this preferred stock for proceeds of \$10 million.

From 1993 through 2003, we acquired 21 apartment properties through a combination of cash purchases, assumption of long-term debt, and issuance of operating partnership units. (We combined two of these properties to operate as a single apartment community.)

To date we have sold seven restaurants to Enterprises, the lessee, under an agreement that allowed Enterprises to close up to seven restaurants and buy them back for no less than net carrying value.

### Recent Developments

During 2004, we raised \$30 million of new equity through the issuance of 2.6 million shares of common stock to a number of institutional investors and mutual funds.

We continued to add to and improve our portfolio of apartment properties with five acquisitions in 2004. Three of these acquisitions were direct purchases (Carriage Club Apartments in Mooresville, North Carolina, the Fairington Apartments in Charlotte, North Carolina, and Bridges at Southpoint Apartments in Durham, North Carolina) and two were made through the issuance of operating partnership units (Bridges at Wind River Apartments in Durham, North Carolina, and Savannah Shores Apartments in Myrtle Beach, South Carolina). With these acquisitions, we owned 25 apartment communities at December 31, 2004.

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In December 2004, we entered into agreements to acquire a portfolio of four apartment communities containing a total of 1,086 apartment units. We expect to complete these acquisitions by the end of March 2005. We currently manage these apartment communities on a contract basis.

In January 2005, we acquired Boddie Investment Company through a merger. As a result of this acquisition, we have assumed the role of general partner and acquired certain economic interests in three limited partnerships (50% interest in Marina Shores Associates One Limited Partnership, 1% interest in The Villages of Chapel Hill Limited Partnership, and 1% interest in The Villages of Chapel Hill - Phase 5 Limited Partnership). Prior to this acquisition, we managed the apartment communities owned by these partnerships on a contract basis; we will continue to manage these properties.

4

### Business Strategy

Our principal investment objectives are to provide our shareholders with current income and to increase the value of the company's common stock. We focus on increasing long-term growth in funds from operations and funds available for distribution per share, and on increasing the value of our portfolio through effective management, growth, financing and investment strategies. We expect to implement our strategies primarily through the acquisition, operation, leasing and management of apartment communities.

We seek to acquire apartment properties in the southeastern United States. We focus on markets that exhibit substantial economic growth and an expanding job base that provide opportunities for us to quickly build a significant market presence. Through our UpREIT structure, we have the ability to acquire apartment communities by issuing operating partnership units in tax-deferred exchanges with owners of such properties. We expect that we will finance future acquisitions of apartment communities with operating partnership units as well as loans and funds from additional offerings of common stock, preferred stock or joint venture arrangements.

We will selectively consider opportunities to add additional units to existing communities, to acquire and rehabilitate older apartment communities, and to develop new apartment communities. Members of our management team have directed over \$115 million of development or redevelopment projects, including 13 apartment communities containing over 2,500 apartment units. This development and redevelopment experience will enable us to build additional apartment communities and to rehabilitate existing communities when economic conditions and available capital make such opportunities attractive.

We strongly emphasize on-site property management. We seek opportunities and have developed internal programs to increase average occupancy rates, reduce resident turnover, raise rents and control costs. On-site community managers report directly to regional managers who are locally based. This flat organization provides for efficient staffing levels, reduces overhead expenses, and enables us to respond to the needs of residents and on-site employees. In an effort to reduce long-term operating costs, we regularly review each apartment community and promptly attend to maintenance and recurring capital needs. Our employees supervise all renovation and repair activities, which are generally completed by outside contractors.

We continue to seek additional sources of revenue at our existing apartment communities. These include water submetering and marketing of cable television, high-speed Internet service and telephone services.

### ITEM 2. PROPERTIES

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### Apartment Communities

Through the operating partnership, we own and operate 25 apartment communities consisting of 6,113 apartment units. For the fourth quarter of 2004, our average economic occupancy rate was 93.2%, and our average monthly revenue per occupied unit was \$744. The average age of the apartment communities is 11.9 years. Our apartment communities are generally wood framed, two- and three-story buildings, with exterior entrances, individually metered gas and electric service, submetered water service, and individual heating and cooling systems.

Our apartment units are comprised of 38% one-bedroom units, 54% two-bedroom units, and 8% three-bedroom units. The units average 1,007 square feet in area and are well equipped with modern appliances and other conveniences. Our communities generally include swimming pools, tennis courts and clubrooms, and most have exercise facilities.

As of December 31, 2004, our total investment, on a historical cost basis, in our 25 apartment communities was \$389.1 million, and the net carrying value of our 25 apartment communities was \$334.6

5

million (an average of \$13.4 million per property). The apartment properties are held subject to loans, discussed in the notes to the financial statements.

The table on page 8 summarizes information about each of our apartment communities.

### Restaurant Properties

We lease the restaurant properties on a triple-net basis to Enterprises under a master lease. The master lease, as amended in 1995, has a primary term expiring in December 2007, but grants Enterprises three five-year renewal options. Enterprises pays annual rent equal to the greater of the specified minimum rent or 9.875% of food sales from the restaurants. Under certain conditions, and subject to our approval, Enterprises has the right to substitute another restaurant property for a property covered by the lease. Assuming renewal of the lease, after December 31, 2007, Enterprises has the right to terminate the lease on up to five restaurant properties per year by offering to purchase them under specified terms.

In addition, we entered into a separate agreement that allowed Enterprises to purchase, under specified terms, up to seven restaurant properties deemed non-economic for no less than net carrying value. The original lease was for 47 restaurant properties; since 1999, we have sold seven restaurants deemed non-economic to Enterprises for total proceeds of \$4,373,000, which equaled the net carrying value of the properties.

The minimum rent on the remaining 40 restaurants is \$3.8 million per year.

The average acquisition cost of the original 47 restaurant properties was \$920,000 per property. The net carrying value of the 40 restaurant properties held at December 31, 2004, was \$25.5 million (an average of \$637,000 per property). The restaurant properties are held subject to a line of credit loan, discussed in the notes to the financial statements.

The restaurant properties are operated by Enterprises, which is responsible for all aspects of the operation, maintenance and upkeep of the properties. In addition, Enterprises is responsible for the cost of any

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improvement, expansion, remodeling or replacement required to keep the properties competitive or in conformity with applicable codes and standards.

Thirty-nine of the restaurant properties are operated as Hardee's restaurants pursuant to franchise agreements with Hardee's Food Systems, Inc. One property is operated as a "BBQ and Ribs" restaurant. Enterprises converted this property to the BBQ and Ribs concept in 2002 and paid for the entire cost of the conversion, approximately \$500,000. There is no applicable franchise agreement for the converted restaurant, as Enterprises owns the BBQ and Ribs concept.

Each of the restaurant properties consists of a one-story brick, stucco or wood building that embodies a contemporary style with substantial plate glass areas. The buildings average 3,400 square feet and are located on sites averaging 1.2 acres. The buildings are suitable for conversion to a number of uses, but the exteriors would have to be substantially modified prior to their use as restaurants of another concept or for non-restaurant applications.

The locations of our restaurant properties are listed on page 9 of this Annual Report.

### Property Insurance

We carry insurance coverage on our properties of types and in amounts that we believe are in line with coverage customarily obtained by owners of similar properties. In addition, properties that we manage but do not own are covered by insurance policies under which we are a named insured. Our restaurant properties are subject to an indemnification agreement whereby Enterprises, the lessee, is responsible for all claims, including those relating to environmental matters, arising from a restaurant property. Enterprises is

6

required to provide insurance, which identifies the company as a named insured, on each restaurant property.

We believe all of our properties are adequately insured, including insurance for acts of terrorism at all of our apartment properties. There are types of losses, however, such as from wars or catastrophic acts of nature, for which we cannot obtain insurance at all or at a reasonable cost. In the event of an uninsured loss or a loss in excess of our insurance limits, we could lose both the revenues generated from the affected property and the capital we have invested in the affected property. It is possible, depending on the specific circumstances of the affected property, that we could be liable for any mortgage indebtedness or other obligations related to the property. Any such loss could materially and adversely affect our business and financial condition and results of operations.

7

### INFORMATION ABOUT APARTMENT COMMUNITIES

No. of

Total  
Rentable

Apartment  
Unit T

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Community	Location	Apt. Units	Year Compl	Date Acquired	Total Acreage	Area (Sq. Ft.)	1 BR	2 BR
Abbingtion Place	Greensboro, NC	360	1997	12/97	37.4	400,728	96	216
Allerton Place	Greensboro, NC	228	1998	9/98	19.2	241,842	54	126
Barrington Place	Charlotte, NC	348	1999	5/02	29.3	386,964	132	192
Brookford Place	Winston-Salem, NC	108	1998	5/02	6.3	103,392	36	72
Carriage Club	Mooresville, NC	268	2000	6/04	22.5	253,114	110	136
Chason Ridge	Fayetteville, NC	252	1994	1/99	29.1	246,886	56	164
Fairington	Charlotte, NC	250	1981	8/04	32.0	267,300	108	106
Harrington	Charlotte, NC	288	1997	8/03	25.0	321,190	103	140
Harris Hill	Charlotte, NC	184	1988	12/94	18.4	167,920	67	117
Latitudes	Virginia Beach, VA	448	1989	10/94	24.9	358,700	269	159
Madison Hall	Clemmons, NC	128	1997	8/98	10.5	110,352	42	86
Marina Waterfront	Cornelius, NC	290	1994	9/02	33.6	254,356	128	126
Oak Hollow	Cary, NC	221	1983	7/98	30.0	215,960	56	165
Oak Hollow Ph 2	Cary, NC	240	1986	12/00	26.8	220,840	160	80
Oakbrook	Charlotte, NC	162	1985	6/94	16.4	178,668	32	120
Paces Commons	Charlotte, NC	336	1988	6/93	24.8	322,046	154	142
Paces Village	Greensboro, NC	198	1988	4/96	15.5	167,886	88	110
Pepperstone	Greensboro, NC	108	1992	12/97	10.1	113,076	-	108
Savannah Place	Winston-Salem, NC	172	1991	12/97	15.4	182,196	44	128
Savannah Shores	Myrtle Beach, SC	198	1998	7/04	13.1	215,418	84	108
Southpoint	Durham, NC	192	1987	9.04	14.5	176,352	132	60
Summerlyn Place	Burlington, NC	140	1998	9/98	12.1	156,756	48	84
The Place	Greenville, SC	144	1985	3/03	10.1	158,264	40	104
Waterford Place	Greensboro, NC	240	1997	12/97	20.6	277,296	72	120
Woods Edge	Durham, NC	264	1985	6/98	32.4	268,620	66	198
Wind River	Durham, NC	346	2000	5/04	29.4	391,120	128	153

Community	Location	Average Economic Occupancy Percent (1)			Average Monthly Revenue per Occupied Unit		
		2004	2003	2002	2004	2003	2002
Abbingtion Place	Greensboro, NC	94.2	90.9	93.2	\$760	\$764	\$770
Allerton Place	Greensboro, NC	94.8	91.4	92.6	790	745	769
Barrington Place	Charlotte, NC	94.4	94.3	91.9	756	748	782
Brookford Place	Winston-Salem, NC	97.0	95.1	93.4	679	667	690
Carriage Club	Mooresville, NC	95.3	-	-	743	-	-
Chason Ridge	Fayetteville, NC	96.4	96.6	96.1	797	753	717
Fairington	Charlotte, NC	93.7	-	-	708	-	-
Harrington	Charlotte, NC	93.8	92.0	-	747	739	-
Harris Hill	Charlotte, NC	95.0	93.3	92.1	635	663	684
Latitudes	Virginia Beach, VA	97.5	96.5	97.2	919	873	817
Madison Hall	Clemmons, NC	94.0	94.2	93.9	600	578	598
Marina Waterfront	Cornelius, NC	94.6	91.0	89.4	772	750	801
Oak Hollow	Cary, NC	93.9	90.0	89.3	616	617	650
Oak Hollow Ph 2	Cary, NC	92.0	89.1	88.2	604	599	606
Oakbrook	Charlotte, NC	94.6	91.9	90.6	698	709	763
Paces Commons	Charlotte, NC	95.2	92.2	91.0	632	660	668



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Paces Village	Greensboro, NC	94.9	94.3	89.0	675	654	667
Pepperstone	Greensboro, NC	96.3	93.8	95.4	668	655	681
Savannah Place	Winston-Salem, NC	93.0	93.4	93.1	716	699	714
Savannah Shores	Myrtle Beach, SC	92.7	-	-	798	-	-
Southpoint	Durham, NC	91.3	-	-	690	-	-
Summerlyn Place	Burlington, NC	94.3	93.5	94.5	826	832	802
The Place	Greenville, SC	95.6	91.1	-	559	569	-
Waterford Place	Greensboro, NC	95.1	91.8	94.7	883	852	850
Woods Edge	Durham, NC	93.6	92.7	92.3	705	722	754
Wind River	Durham, NC	86.1	-	-	820	-	-

8

### RESTAURANT PROPERTIES LOCATIONS

Virginia  
(27 properties)

Ashland  
106 North Washington

Blackstone  
North Main Street

Bluefield  
701 South College Street

Chester  
12401 Jefferson Davis Hwy.

Clarksville  
916 Virginia Avenue

Clintwood  
U.S. Highway 83

Dublin  
208 College Avenue

Franklin  
105 North Mechanic Street

Galax  
425 Main Street

Hopewell  
East City Point Road

Lebanon  
Route 1

Lynchburg  
8411 Timberlake Road  
2231 Langhorne road

Norfolk

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3908 Princess Anne Road

Orange

200 Madison Road

Petersburg

1865 Crater Road, South

Richmond

921 Myers Street

6850 Forest Hill Avenue

7917 Midlothian Pike

Roanoke

4407 Abenham Avenue SW

3401 Hollins Road

Rocky Mount

322 Tanyard Road, NE

Smithfield

Smithfield Shopping Center

Verona

160 East Route 612

Virginia Beach

4261 Holland Road

1951 Lynnhaven Parkway

Wise

US Highway 23, Business

North Carolina

(13 properties)

Burlington

2712 Alamance Road

Denver

Route 1

Eden

202 West Kings Highway

Fayetteville

3505 Ramsey Street

360 North Eastern Blvd.

Hillsborough

380 S. Churton Street

Kinston

200 West Vernon Street

1404 Richlands Street

Newton

South Ashe & North "D"

Siler City\*

Chatham Shopping Center

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Spring Lake  
400 South Main Street

Thomasville  
1116 East Main Street  
Randolph Street

\*operated as a "BBQ & Ribs." All other sites are operated as "Hardee's."

9

## ITEM 3. LEGAL PROCEEDINGS

We are a party to a variety of legal proceedings arising in the ordinary course of business. We do not expect any of these matters, individually or in aggregate, to have a material adverse impact on the company.

In the event a claim was successful, we believe that we are adequately covered by insurance and indemnification agreements. We have insurance coverage on each of our apartment communities. Our restaurant properties are subject to an indemnification agreement whereby Enterprises, the lessee, is responsible for all claims arising from a restaurant property. In addition, Enterprises is required to provide insurance, which identifies the company as a named insured, on each restaurant property. Each apartment property that we manage but do not own is covered by an insurance policy under which we are a named insured.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2004.

## ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

We have set forth below a listing and brief biography of each of the executive officers of the company.

Name	Age	Position	Office
Philip S. Payne	53	Chairman of the Board of Directors, Chief Financial Officer	October
D. Scott Wilkerson	47	Director, President, Chief Executive Officer	October
Eric S. Rohm	35	Vice President, Secretary, General Counsel	December
Pamela B. Bruno	51	Vice President, Treasurer, Chief Accounting Officer, Assistant Secretary	October

Messrs. Payne and Wilkerson are also members of our Board of Directors. Brief biographies of Messrs. Payne and Wilkerson are included at Part III, Item 10. Directors and Officers of the Registrant in this Annual Report. Biographical information for our other executive officers follows.

Eric S. Rohm - Vice President, Secretary, General Counsel. Mr. Rohm joined the company in December 2002 as Vice President and General Counsel, and was named Secretary in May 2004. Prior to joining the company, Mr. Rohm was a partner in the Real Estate Department of Kennedy Covington Lobdell & Hickman, LLP in Charlotte, North Carolina, where he practiced law from 1994 to 2002. Mr.

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Rohm received an AB degree in government from Georgetown University in 1991, and his JD degree from The Ohio State University College of Law in 1994. Mr. Rohm is licensed to practice law in the State of North Carolina and is a member of the North Carolina State Bar, the North Carolina Bar Association, and the Association of Corporate Counsel.

Pamela B. Bruno - Vice President, Treasurer, Chief Accounting Officer, Assistant Secretary. Ms. Bruno joined BT Venture Corporation in 1993 as Controller and became our Vice President and Chief Accounting Officer in October 1994. She was named Treasurer in May 2004. From 1984 to 1993, Ms. Bruno was with Ernst & Young LLP, in Charlotte, North Carolina, and Anchorage, Alaska, serving as audit manager from 1987 through 1993. She received a BS degree in accounting from the University of North Carolina at Charlotte in 1984. She is a licensed certified public accountant and is a member of the North Carolina Association of Certified Public Accountants.

10

### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

##### Market Information, Holders and Dividends

Our common stock is traded on the American Stock Exchange under the symbol "BNP." There were 1,300 common shareholders of record and one preferred shareholder on February 23, 2005. The table below shows, for the periods indicated, the range of high, low, and closing sale prices of our common stock as reported by the American Stock Exchange and the dividends paid per share. As of February 23, 2005, the closing price of the company's common stock was \$16.13 per share.

	High	Stock Price Low	Close	Di Pe
	-----			-----
2004:				
Fourth quarter	\$ 16.20	\$ 13.62	\$ 16.10	
Third quarter	13.90	12.80	13.68	
Second quarter	13.24	12.35	13.14	
First quarter	13.35	11.50	13.17	
2003:				
Fourth quarter	11.75	10.41	11.61	
Third quarter	11.50	10.26	10.55	
Second quarter	11.00	9.68	10.80	
First quarter	10.79	9.00	9.70	

We have paid regular quarterly dividends to holders of our common stock since our inception, and we intend to continue to do so. We anticipate that we will pay all dividends from current funds from operations. We expect distributions to substantially exceed the 90% annual distribution requirement for a REIT.

We have a dividend reinvestment plan that is available to all

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shareholders of record. Under this plan, as amended in February 2004, the plan administrator, Wachovia Bank, N. A., reinvests dividends on behalf of plan participants in our common stock. Wachovia will either issue new shares or purchase shares on the open market, at our direction. In addition, shareholders who participate in the plan may elect to make direct cash investments or supplement their reinvestment program with additional cash investments of any amount from \$25 to \$25,000 per quarter. Participants do not pay any commissions on stock purchased under the plan.

### Sales of Unregistered Securities

On January 26, 2005, we acquired Boddie Investment Company ("BIC") through a merger. Because of this merger, we succeeded BIC as the general partner of, and acquired an economic interest in, three limited partnerships. As consideration in the merger, we privately issued 508,578 shares of common stock pursuant to the exemption provided by Section 4(2) of the Securities Act. We issued those shares, which had a value on that date of \$16.10 per share, to B. Mayo Boddie and Nicholas B. Boddie. Upon closing the merger, we canceled 72,399 shares of our common stock that BIC held immediately before the merger. The value of the transaction was \$8.2 million based on the \$16.10 per share value.

We have included information regarding securities authorized for issuance under equity compensation plans in Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Annual Report.

11

### ITEM 6. SELECTED FINANCIAL DATA

We present below selected financial information. We encourage you to read the financial statements and the notes accompanying the financial statements in this Annual Report. This information is not intended to be a replacement for the financial statements.

This financial information includes all apartment communities and restaurant properties that we owned for each period shown.

	Year ended December 31			
	2004	2003	2002	2001
	-----			
	(in thousands, except per share and property data)			
Operating data: (1)				
Revenue:				
Apartment rental income	\$ 45,808	\$ 37,475	\$ 32,890	\$ 30,867
Restaurant rental income	3,830	3,908	4,021	4,053
Other income	1,227	1,277	1,253	1,342
	-----			
Total revenue	50,865	42,660	38,164	36,262
Expenses:				
Apartment operations	18,563	15,458	12,682	11,182
Administrative costs	4,520	3,907	3,358	2,956
Interest	14,608	13,000	11,452	11,100
Depreciation	11,660	10,040	8,794	7,828
Amortization (1)	375	322	256	596
Write-off of unamortized loan costs at refinance	85	-	95	129
Costs of terminated				

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equity transaction	-	-	-	-
Total expenses	49,810	42,727	36,637	33,792
Income (loss) before minority interest	1,055	(66)	1,527	2,470
Minority interest in Operating Partnership	16	(174)	279	567
Net income	1,039	107	1,248	1,902
Cumulative preferred dividend	1,000	661	323	3
Income (loss) available to common shareholders	\$ 39	\$ (553)	\$ 925	\$ 1,900
Earnings per share, basic and diluted - Income (loss) available to common shareholders	\$ 0.01	\$ (0.09)	\$ 0.16	\$ 0.33
Dividends per common share	\$ 1.00	\$ 1.00	\$ 1.24	\$ 1.24
Balance Sheet data:				
Real estate assets (before accumulated depreciation)				
Apartment communities	\$ 389,119	\$ 299,661	\$ 275,713	\$ 221,589
Restaurant properties	37,405	37,405	39,159	39,159
Real estate assets, net	360,071	281,014	265,423	219,997
Total assets	367,764	287,200	271,723	225,385
Total debt	286,425	229,714	211,585	162,330
Minority interest	14,394	15,895	17,947	18,174
Shareholders' equity	62,996	38,733	39,271	42,034

12

	Year ended December 31			
	2004	2003	2002	2001
	(in thousands, except per share and property data)			
Apartment Properties data:				
Apartment communities owned at year end	25	20	18	15
Apartment units owned at year end	6,113	4,859	4,427	3,681
Average apartment economic occupancy	94.4%	92.8%	92.8%	93.9%
Average monthly revenue per occupied unit	\$ 737	\$ 725	\$ 733	\$ 744
Other data:				
Earnings before interest, taxes, depreciation and amortization (2)	\$ 27,783	\$ 23,295	\$ 22,124	\$ 22,123

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Funds from operations (2)	11,447	9,313	9,998	10,702
Funds available for distribution (2)	9,988	7,904	8,865	9,696
Net cash provided by (used in):				
Operating activities (3)	\$ 12,677	\$ 9,594	\$ 10,118	\$ 10,729
Investing activities (3)	(52,848)	(25,275)	(32,669)	(2,401)
Financing activities	40,123	15,361	22,018	(7,966)
Weighted average number of shares and units outstanding:				
Preferred B shares	909	601	293	2
Common shares	7,617	5,868	5,787	5,717
Operating partnership minority units	1,856	1,843	1,786	1,706

- (1) We adopted Statement of Financial Accounting Standards ("FAS") No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002. After December 31, 2001, we no longer amortize the intangible asset related to our 1994 acquisition of management operations. Amortization expense related to this intangible asset was \$406,000 per year in 2001 and 2000.
- (2) Earnings before interest, taxes, depreciation and amortization, funds from operations, and funds available for distribution amounts reflect measurements for the operating partnership (before deduction for minority interest).

Earnings before interest, taxes, depreciation and amortization is frequently referred to as "EBITDA." This measurement is derived directly from amounts included in the Statement of Operations. We consider EBITDA to be a useful measurement of operations performance before the impact of financial structure and significant non-cash charges.

We calculated EBITDA as follows (all amounts in thousands):

13

	Year ended December 31			
	2004	2003	2002	2001
	-----			
Income (loss) before minority interest	\$ 1,055	\$ (66)	\$ 1,527	\$ 2,470
Interest	14,608	13,000	11,452	11,100
Depreciation	11,660	10,040	8,794	7,828
Amortization	375	322	256	596
Write-off of unamortized loan costs	85	-	95	129
	-----			
Earnings before interest, taxes, depreciation and amortization	\$ 27,783	\$ 23,295	\$ 22,124	\$ 22,123
	=====			

Funds from operations is frequently referred to as "FFO." FFO is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as

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"net income (computed in accordance with generally accepted accounting principles), excluding gains (losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures." Our calculation of FFO is consistent with FFO as defined by NAREIT. Because we hold all of our assets in and conduct all of our operations through the operating partnership, we measure FFO at the operating partnership level (i.e., before minority interest). Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. In fact, real estate values have historically risen or fallen with market conditions. FFO is intended to be a standard supplemental measure of operating performance that excludes historical cost depreciation from - or "adds it back" to - GAAP net income. We consider FFO to be useful in evaluating potential property acquisitions and measuring operating performance.

Funds available for distribution is frequently referred to as "FAD." We calculate FAD as FFO plus non-cash expense for amortization and write-off of unamortized loan costs, less recurring capital expenditures. We believe that, together with net income and cash flows from operating activities, FAD provides investors with an additional measure to evaluate the ability of the operating partnership to incur and service debt, to fund acquisitions and other capital expenditures, and to fund distributions to shareholders and minority unitholders.

Funds from operations and funds available for distribution do not represent net income or cash flows from operations as defined by generally accepted accounting principles. You should not consider FFO or FAD to be alternatives to net income as reliable measures of the company's operating performance; nor should you consider FFO or FAD to be alternatives to cash flows from operating, investing or financing activities (as defined by generally accepted accounting principals) as measures of liquidity.

Funds from operations and funds available for distribution do not measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization, capital improvements and distributions to shareholders. FFO and FAD do not represent cash flows from operating, investing or financing activities as defined by generally accepted accounting principles. Further, FFO and FAD as disclosed by other REITs might not be comparable to our calculation of FFO or FAD.

For a reconciliation of FFO and FAD to net (loss) income before minority interest, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Funds From Operations."

- (3) Beginning in 2004, we have presented operating activities in our consolidated statements of cash flows using the direct method, which provides cash flow amounts corresponding directly to lines in our statements of operations. We have adjusted the 2003 and 2002 comparative amounts in our

consolidated statements of cash flows to conform to the 2004 presentation by reclassifying the net cash flows related to funding of lender reserves for apartment property replacements from operating activities to investing activities. This reclassification has no impact on the net change in cash and cash equivalents for 2003 and 2002, only in the subtotals for net cash provided by operating activities and net cash used in investing activities. The net effect on net cash provided by operating activities is a decrease of \$213,000 in 2003, and an increase of \$133,000 in 2002, from



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amounts previously reported.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report contains forward-looking statements. You can identify such statements by the use of forward-looking terminology, such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other "forward-looking" information.

We cannot guaranty that we will achieve the plans, intentions or expectations suggested by these forward-looking statements, even though we believe them to be reasonable. When you consider such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- o our markets could suffer unexpected increases in the development of apartments or other rental or competitive housing alternatives;
- o our markets could suffer unexpected declines in economic growth or an increase in unemployment rates;
- o general economic conditions could cause the financial condition of a large number of our tenants to deteriorate;
- o we may be unable to lease or re-lease apartments quickly or on as favorable terms as under existing leases;
- o revenues from our third-party apartment property management activities could decline, or we could incur unexpected costs in performing these activities;
- o we may be unable to complete anticipated acquisitions;
- o we may have incorrectly assessed the environmental condition of our properties;
- o an unexpected increase in interest rates could cause our debt service costs to exceed our expectations;
- o we may be unable to meet our long-term liquidity requirements on favorable terms; and
- o we could lose key executive officers.

Given these uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to revise these forward-looking statements if future events or circumstances render them inaccurate.

You should read this discussion in conjunction with the financial statements and notes thereto included in this Annual Report.

#### Overview

2004 was a year of significant growth for us. During the year we acquired five apartment communities that increased our apartment holdings by 26%, completed two equity offerings in which we raised approximately \$30 million, and consummated seven financing and four refinancing transactions for various apartment properties. As a result of these activities, we saw significant increases in revenue, expenses, debt and equity.

For the year, total revenue increased by \$8.2 million (19.2%) over 2003. This increase was attributable to an \$8.3 million (22.2%) increase in apartment rental income in 2004. While the majority of the increase in apartment rental income (\$6.9 million) was the result of five apartment acquisitions in

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2004 and two apartment acquisitions in 2003, significant improvement in apartment occupancy and rental rates in 2004 made a meaningful contribution (\$1.4 million) to the increase. On a same units basis (for the 4,427 units that we owned throughout 2004 and 2003), apartment rental income increased by 4.0%. Average economic occupancy for these units was 94.8% in 2004 as compared to 92.9% in 2003, and average monthly revenue per occupied unit was \$739 in 2004 as compared to \$728 in 2003.

The increase in apartment rental revenue was partially offset by a 2.0% (\$0.1 million) decline in restaurant rental income due to the sale of two restaurant properties in 2003. This decline from the sale of the two restaurant properties actually masked continued improvement in food sales at our restaurant properties.

In an attempt to reverse years of declining sales, Hardee's, the concept at 39 of our 40 restaurant properties, introduced the "Thick-Burger" product line in 2003. Almost immediately we began to see significant sales increases with same store sales at our restaurant properties increasing by 2.4% in 2003. These increases continued into 2004 with same store sales for 2004 improving by 8.5% over 2003 levels. The rent we receive from the restaurants is the greater of percentage rent (9.875% of annual food sales) or a set minimum rent (currently \$3.8 million per annum). We received the minimum rent in 2004. For us to receive percentage rent in 2005, same store sales would have to increase by 1.3%. Given the current state of flux in the fast food industry, we are uncomfortable making a prediction or relying on the forecasts of others as to future sales trends for Hardee's. For this reason, we have based our plans and expectations on continuing to receive the minimum rent in 2005.

The growth in the size of our apartment portfolio led to significant growth in total expenses (16.6%) with large increases in apartment operations (20.1%), apartment administration (29.2%), interest expense (12.4%), and depreciation (16.1%). Interestingly, on a same units basis, apartment operating expense for 2004 increased by only 0.3%. It is also interesting to note that as a percentage of apartment rental income, apartment operating expense decreased from 41.2% in 2003 to 40.5% in 2004.

The positive impact of the new apartment communities and improving apartment operations were reflected in positive corporate operating results. Net income (after the minority interest in the operating partnership net income or loss, and before deduction for cumulative preferred dividend) increased to \$1,039,000 in 2004 from \$107,000 in 2003, while funds from operations in 2004 increased by 22.9% compared to 2003.

After several difficult years, we began to see significant improvement in our apartment operations in mid-2003. This improvement continued throughout 2004 with improving occupancies and improving rental rates. With economic occupancy for all apartments for 2004 averaging 94.4% it will be difficult for us to make significant gains in occupancy going forward, therefore our emphasis will turn to increasing rental rates. While we have some concerns, we are confident that we are in good position to enjoy continued improvement in our apartment operations. This confidence is based on a number of factors:

- o Most important among these is our emphasis on middle market apartments. We believe there is an increasing need for high quality, modestly priced apartments that are well located, extremely well maintained and professionally managed. At an average base rental rate of slightly more than \$700 per month, we provide high quality housing for firefighters, policemen, teachers, office workers, store clerks, young couples and an increasing number of retirees. Our combination of affordability with quality gives us a wide group of potential residents.
- o Our properties are in good markets with excellent locations within

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those markets. We operate in Virginia, North Carolina and South Carolina. While, like much of the country, they have displayed some weakness over the past few years, we are quite positive about the long-term economic and demographic outlook for these states and the markets within them in which we operate.

16

- o Our properties are in very good physical condition. An essential part of our strategy is the maintenance of our properties. We do not develop new properties, but believe we can deliver a higher quality product at a more reasonable price by maintaining existing apartment properties. Maintenance is very important to us; not only because we believe it is essential to preserving and enhancing the value of our investment, but also because we believe it is essential to our marketing efforts to attract residents. As a result, our properties are in very good physical condition.
  
- o We are well positioned to compete on price with single-family homes and new apartment construction. Our two biggest sources of competition for residents are single-family homes and new apartment construction. The advent of no down payment single-family home mortgages combined with historic low interest rates has posed a challenge for us for the past few years. However, significant increases in construction costs and rising home mortgage rates appear to be resolving this issue. The same is true for new apartment construction, as rising construction costs are making it more difficult to build new apartments of similar size, quality and location as ours that can be profitably rented in the \$700 per month range.

All in all, we are optimistic about the long-term outlook for both our apartment markets and our apartment operations. We do, however, expect early 2005 to continue to be somewhat weak, with an expectation that apartment performance will strengthen as the year progresses. One area of concern is interest rates. As we enter 2005, we have \$286 million of debt. While we have attempted to mitigate interest rate risk somewhat by having approximately 75% of this amount be at fixed rates, the balance carries a floating rate. Based on the amounts in place at 2004 year-end a 1% rise in average annual rates for the full year would increase our interest expense by approximately \$720,000. In theory, rising interest rates correlate with improving apartment operating fundamentals, but whether this will in fact be the case or whether it will match in timing and amount remains to be seen. We intend to monitor the situation and may adjust the amount of debt or the allocation of debt between fixed and variable rates as the year progresses.

### Critical Accounting Policies

Our significant accounting policies are identified and discussed in the notes to our financial statements included in this Annual Report. Those policies that may be of particular interest to readers of this Annual Report are further discussed below.

### Capital expenditures and depreciation

In general, for the 16 apartment properties acquired before 2002, we compute depreciation using the straight-line method over composite estimated useful lives of the related assets, generally 40 years for buildings, 20 years for land improvements, 10 years for fixtures and equipment, and five years for floor coverings.

For apartment properties acquired after 2001, we performed detailed

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analyses of components of the real estate assets acquired. For these properties, we assigned estimated useful lives as follows: base building structure, 43-60 years; land improvements, 7-20 years; short-lived building components, 5-20 years; and fixtures, equipment and floor coverings, 5-10 years.

We generally complete and capitalize acquisition improvements (expenditures that have been identified at the time the property is acquired, and which are intended to position the property consistent with our physical standards) within one to two years of acquisition of the related apartment property. We capitalize non-recurring expenditures for additions and betterments to buildings and land improvements. In addition, we generally capitalize recurring capital expenditures for exterior painting, roofing, and other major maintenance projects that substantially extend the useful life of existing assets. For financial reporting purposes, we depreciate these additions and replacements on a straight-line basis over estimated useful lives of 5-20 years. We retire replaced assets with a charge to depreciation for any remaining

17

carrying value. We capitalize all floor covering, appliance, and HVAC replacements, and depreciate them using a straight-line, group method over estimated useful lives of 5-10 years.

Capital expenditures at our apartment communities during 2004 totaled \$5.2 million, including \$1.1 million for acquisition improvements, \$1.6 million for additions and betterments, \$0.5 million for reconstruction and replacement of casualty losses, and \$1.9 million in recurring capital expenditures.

We expense ordinary repairs and maintenance costs at apartment communities. Repairs and maintenance at our apartment communities during 2004 totaled \$6.6 million, including \$2.5 million in compensation of service staff and \$4.1 million in payments for materials and contracted services.

Costs of repairs, maintenance, and capital replacements and improvements at restaurant properties are borne by the lessee.

Impairment of long-lived assets

In accordance with FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we periodically review our real estate assets to determine whether our carrying amount will be recovered from their undiscounted future operating cash flows. If the carrying value were to be greater than the undiscounted future operating cash flows, we would recognize an impairment loss to the extent the carrying amount is not recoverable. Our estimates of the undiscounted future operating cash flows expected to be generated are based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for apartment units, competition for tenants, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter our assumptions, the undiscounted future operating cash flows that we estimate in our impairment analyses may not be achieved, and it is possible that we could be required to recognize impairment losses on our properties at some point in the future.

Valuation of leases in place at property acquisitions

We calculate an estimate of the value of leases in place at the dates of property acquisitions to determine if we should allocate a portion of the purchase price to an intangible asset for the value of these leases. In preparing this calculation, we consider the estimated costs to make an apartment

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unit rent ready (frequently called turnover costs), the estimated costs and lost income associated with executing a new lease on an apartment unit, and the remaining terms of leases in place, and we compare rental rates on leases in place to our estimate of prevailing market rates in the neighborhood of the acquired property.

Based on our analyses for the seven apartment properties that we acquired in 2004 and 2003, we determined that the net value of leases in place at the dates of acquisition was insignificant to the acquisition costs, and we did not record any intangible asset for leases in place. This result is primarily due to the relatively short-term nature of apartment leases, the regular pattern of turnover of apartment leases, and the relatively gradual movement of prevailing rental rates in the respective neighborhoods. We plan to prepare similar calculations in conjunction with future property acquisitions.

### Revenue recognition

We record rental and other income monthly as it is earned. We record rental payments that we receive prior to the first of a given month as prepaid rent. We hold tenant security deposits in trust in bank accounts separate from operating cash (these amounts are included in other current assets on our balance sheet), and we record a corresponding liability for security deposits on our balance sheet.

We amortize any cash concessions given at the inception of an apartment lease over the approximate life of the lease, which is generally one year or less. In general, cash concessions range from \$100 to \$300 and are taken by residents during the first two months of the lease.

18

### Results of Operations

#### 2004 compared to 2003

##### Revenues

Revenues in 2004 totaled \$50.9 million, an increase of 19.2% compared to 2003. Apartment related income (apartment rental income plus income from apartment management and investment activities) accounted for 92.5% of our total revenue in 2004, compared to 90.8% in 2003.

Apartment rental income in 2004 totaled \$45.8 million, an increase of 22.2%, or \$8.3 million, compared to 2003. \$6.9 million of this increase is attributable to rental income at seven apartment communities that we acquired during 2004 and 2003. On a same-units basis (for the 4,427 units that we owned throughout all of both 2004 and 2003), apartment rental income increased by \$1.4 million, or 4.0%, compared to 2003.

On a same-units basis, average economic occupancy was 94.8% in 2004 compared to 92.9% in 2003, and average monthly revenue per occupied unit was \$739 in 2004 compared to \$728 in 2003. In 2004, for all apartment units, average economic occupancy was 94.4%, and average revenue per occupied unit was \$737.

Restaurant rental income in 2004 totaled \$3.8 million, a decline of 2.0% compared to 2003. The decrease in restaurant rental income is due to the sale of two restaurant properties in 2003. We received the minimum rent specified in the lease agreement throughout both years. Under our master lease with Boddie-Noell Enterprises, restaurant rental income payments are the greater of specific minimum rent or 9.875% of food sales. Minimum rent is set at approximately \$8,000 per month, or \$96,000 per year, per restaurant property. We

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currently hold 40 restaurant properties under this lease, and minimum rent is currently set at \$319,000 per month, or \$3.8 million per year.

Same-store sales (for the 40 restaurants that were open throughout all of both 2004 and 2003) increased by 8.5% in 2004 compared to 2003. For the first time in almost nine years, during the second and third quarters of 2004, sales at our restaurant properties exceeded the threshold for percentage rent; however, for the full 12-month period, sales fell 1.3% short of the threshold for rent exceeding the minimum rent.

Management fee income in 2004 totaled \$0.8 million, a decline of 12.8% compared to 2003. This decrease is primarily attributable to our acquisitions of two previously managed properties (one in August 2003, and one in July 2004). We expect that management fee income will further decline significantly in 2005 as a result of our anticipated acquisitions of managed properties.

During 2004, we recorded casualty gains of \$269,000 related to fires that occurred at two apartment communities - in each case, one building incurred substantial damage. We received insurance proceeds totaling \$895,000, against which we identified and wrote off \$626,000 net carrying value of assets destroyed. Generally accepted accounting principles require us to recognize this difference as a gain. However, we intend to reinvest all of the insurance proceeds in replacement assets. We are fully insured for the losses, including rent continuation insurance which covers 100% of lost rental income.

### Expenses

Total expenses, including non-cash charges for depreciation, amortization and write-off of unamortized loan costs, totaled \$49.8 million in 2004, an increase of 16.6% compared to 2003.

Apartment operations expense includes only direct costs of on-site operations. This line item totaled \$18.6 million in 2004, an increase of 20.1%, or \$3.1 million, compared to 2003. This increase is primarily attributable to operating expenses at seven apartment communities that we acquired during 2004

19

and 2003. On a same-units basis, apartment operations expense increased by only 0.3% in 2004 compared to 2003, reflecting higher costs for compensation, offset by reductions in insurance, leasing and turnover costs. As a percentage of apartment rental income, apartment operations expense decreased from 41.2% in 2003 to 40.5% in 2004.

We incur no operating expenses for restaurant properties because the triple-net lease arrangement requires the lessee to pay virtually all costs and expenses associated with the restaurant properties.

Apartment administration expense (the costs associated with oversight, accounting, and support of our apartment management activities for both properties we own and properties we manage) totaled \$2.2 million in 2004, an increase of 29.2% compared to 2003. Corporate administration expense totaled \$2.3 million in 2004, an increase of 5.2% compared to 2003. These increases are attributable to additional corporate support staff, software and insurance costs, as well as approximately \$100,000 spent in 2004 for development of compliance documentation required by Section 404 of the Sarbanes-Oxley Act of 2002. Going forward, we expect to incur ongoing expenses for professional services related to compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Interest expense totaled \$14.6 million in 2004, an increase of \$1.6

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million, or 12.4%, compared to 2003. This increase reflects the impact of a net increase in outstanding debt of \$57 million, primarily at fixed rates, in 2004, related to apartment acquisitions. During 2004, fixed-rate debt increased by \$48 million while the average rate on fixed-rate debt outstanding declined from 6.8% to 6.4%. Variable interest rates increased by 1.3% during the last half of 2004. Overall, weighted average interest rates were 5.7% in 2004 and 5.9% in 2003.

Depreciation expense totaled \$11.7 million in 2004, an increase of \$1.6 million, or 16.1%, compared to 2003. This increase is attributable to the addition of seven apartment communities during 2004 and 2003 and the impact of additions and replacements at other apartment communities. We generally assign those additions and replacements shorter lives than the composite lives we assigned at the acquisition of the assets to which the additions and replacements relate.

### Net income

Operating partnership earnings before non-cash charges for depreciation, amortization and write-off of unamortized loan costs totaled \$13.2 million in 2004, an increase of \$2.9 million, or 28.0%, compared to 2003. After including these non-cash charges, the operating partnership net income was \$1,055,000 in 2004, compared to a net loss of \$66,000 in 2003.

Net income (after the minority interest in the operating partnership net income or loss, and before deduction for cumulative preferred dividend) was \$1,039,000 in 2004, compared to \$107,000 in 2003.

Because the preferred shareholder has priority over common shareholders for receipt of dividends, we deduct the amount of net income that will be paid to the preferred shareholder in calculating net income available to common shareholders. In September 2003, we issued 454,545 shares of cumulative preferred stock, which doubled the number of preferred shares outstanding. The cumulative preferred dividend totaled \$1,000,000 for 2004, compared to \$661,000 for 2003. The dividend on the Series B shares is \$1.10 per year per share, or \$1,000,000 for the 909,090 shares currently outstanding.

Income available to common shareholders in 2004 was \$39,000, or \$0.01 on a diluted per share basis, compared to loss attributable to common shareholders in 2003 of \$553,000, or \$0.09 on a diluted per share basis.

These favorable comparisons are primarily attributable to the positive impact of new apartment communities and improvements in apartment operating results.

20

### 2003 compared to 2002

#### Revenues

Revenues in 2003 totaled \$42.7 million, an increase of 11.8% compared to 2002. Apartment related income (apartment rental income plus income from apartment management and investment activities) accounted for 90.8% of our total revenue in 2003, compared to 89.5% in 2002.

Apartment rental income in 2003 totaled \$37.5 million, an increase of 13.9%, or \$4.6 million, compared to 2002. This increase is attributable to rental income at five apartment communities that we acquired during 2003 and 2002, which offsets a slight decline at other communities. On a same-units basis (for the 3,681 units that we owned throughout all of both 2003 and 2002), apartment rental income declined by 0.4% in 2003 compared to 2002.

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On a same-units basis, average economic occupancy was 92.9% in 2003 compared to 92.8% in 2002, and average monthly revenue per occupied unit was \$727 in 2003 compared to \$730 in 2002. In 2003, average economic occupancy for all apartments was 92.8%, and average revenue per occupied unit was \$725.

Restaurant rental income in 2003 totaled \$3.9 million, a decline of 2.8% compared to 2002. The decrease in restaurant rental income was due to the sale of two restaurant properties in 2003. We received the minimum rent specified in the lease agreement throughout both years. Same-stores sales (for the 40 restaurants that were open throughout all of both 2003 and 2002) increased by 2.4% in 2003 compared to 2002.

Management fee income in 2003 totaled \$873,000, a decline of 20.3% compared to 2002. This decrease is attributable to our acquisition of two previously managed properties in May 2002, as well as the termination of management contracts for several smaller properties in the first quarter of 2003.

### Expenses

Total expenses, including non-cash charges for depreciation and amortization, in 2003 were \$42.7 million, an increase of \$6.1 million, or 16.6%, compared to 2002.

Apartment operations expense totaled \$15.5 million in 2003, an increase of 21.9%, or \$2.8 million, compared to 2002. This increase was primarily attributable to the addition of five apartment communities during 2003 and 2002. On a same-units basis, apartment operations expense increased by 4.2% in 2003 compared to 2002, reflecting higher costs for compensation, contracted services, and turnover costs. Apartment operations expense in 2003 represented 41.2% of related apartment rental income, compared to 38.6% in 2002.

Apartment administration expense totaled \$1.7 million in 2003, an increase of 25.4% compared to 2002. Corporate administration expense totaled \$2.2 million in 2003, an increase of 10.1% compared to 2002. These increases reflected the impact of additional executive and corporate support staff and related compensation and increased corporate insurance and software costs.

Interest expense totaled \$13.0 million in 2003, an increase of 13.5%, or \$1.5 million, compared to 2002. This increase reflected the impact of \$69 million in new debt related to apartment acquisitions since June 2002, offset by the effect of lower interest rates on our variable-rate debt. Variable interest rates declined 0.3% during 2003. Overall, weighted average interest rates were 5.9% in 2003, compared to 6.2% in 2002.

Depreciation expense totaled \$10.0 million in 2003, an increase of 14.2%, or \$1.2 million, compared to 2002. This increase was attributable to the addition of five apartment communities in 2003 and 2002, as well as the impact of additions and replacements at other apartment communities.

21

### Net income

Operating partnership earnings before non-cash charges for depreciation and amortization totaled \$10.3 million, a decrease of 3.5% compared to 2002. After including these non-cash charges, the operating partnership loss in 2003 was \$66,000, compared to operating partnership net income of \$1.5 million in 2002. The minority interest in operating partnership earnings absorbed \$174,000 of the loss in 2003, compared to \$279,000 of earnings in 2002.



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Net income (after the minority interest in the operating partnership net income or loss, and before deduction for cumulative preferred dividend) was \$107,000 in 2003, compared to \$1.2 million in 2002.

In September 2003, we issued 454,545 shares of cumulative preferred stock, which doubled the number of preferred shares outstanding. The cumulative preferred dividend totaled \$661,000 for 2003, compared to \$323,000 for 2002.

Loss available to common shareholders in 2003 was \$553,000, or \$.09 on a diluted per share basis, compared to income available to common shareholders in 2002 of \$925,000, or \$0.16 on a diluted per share basis.

These comparisons reflected the impact of declining margins in apartment operations in 2003 compared to 2002, and the increased cumulative preferred dividend in 2003, offset somewhat by the favorable impact of lower interest rates.

### Reclassifications

In January 2003, we adopted FAS 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections." FAS 145 generally requires gains and losses on extinguishments of debt to be classified as income or loss from continuing operations, rather than as extraordinary items as previously required under FAS 4. We reclassified the extraordinary item for loss on early extinguishment of debt in 2002 to conform to FAS 145. While adoption of FAS 145 had no impact on net income, it increased total expenses, reduced income before extraordinary items and eliminated the extraordinary item as previously reported in our 2002 Annual Report.

### Funds from Operations

Funds from operations and funds available for distribution are defined in footnote 2 on page 14. Both of these measures are made at the operating partnership level. You should read and understand that footnote before reviewing the following discussion.

We calculated FFO as follows (all amounts in thousands):

	2004	2003	2002
	-----	-----	-----
Income (loss) before minority interest	\$ 1,055	\$ (66)	\$ 1,527
Less casualty gains	(269)	-	-
Cumulative preferred dividend	(1,000)	(661)	(323)
Depreciation	11,660	10,040	8,794
	-----	-----	-----
Funds from operations	\$ 11,447	\$ 9,313	\$ 9,998
	=====	=====	=====

22

A reconciliation of FFO to FAD follows (all amounts in thousands):

	2004	2003	2002
	-----	-----	-----

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Funds from operations	\$ 11,447	\$ 9,313	\$ 9,998
Amortization of loan costs	375	322	256
Write-off of unamortized loan costs at refinance	85	-	95
Recurring capital expenditures	(1,918)	(1,731)	(1,484)
	-----	-----	-----
Funds available for distribution	\$ 9,988	\$ 7,904	\$ 8,865
	=====	=====	=====

A further reconciliation of FAD to net cash provided by operating activities follows (all amounts in thousands):

	2004	2003	2002
	-----	-----	-----
Funds available for distribution	\$ 9,988	\$ 7,904	\$ 8,865
Add casualty losses charged to operations	14	-	-
Cumulative preferred dividend	1,000	661	323
Recurring capital expenditures	1,918	1,731	1,484
Amortization of deferred interest defeasance	(105)	(228)	(167)
Changes in operating assets and liabilities	(138)	(472)	(388)
	-----	-----	-----
Net cash provided by operating activities	\$ 12,677	\$ 9,594	\$ 10,118
	=====	=====	=====

Other information about our historical cash flows follows (all amounts in thousands):

	2004	2003	
	-----	-----	
Net cash provided by (used in)			
Operating activities	\$ 12,677	\$ 9,594	\$
Investing activities	(52,848)	(25,275)	\$
Financing activities	40,123	15,361	\$
Dividends and distributions paid to			
Preferred shareholder	\$ 1,000	\$ 537	\$
Common shareholders	7,551	5,859	\$
Minority unitholders in operating partnership	1,847	1,845	\$
Scheduled debt principal payments	\$ 1,378	\$ 1,172	\$
Non-recurring capital expenditures			
Acquisition improvements and replacements	\$ 1,104	\$ 1,053	\$
Apartment property additions and betterments	1,613	565	\$
Reconstruction and replacement of casualty losses	526	-	\$
Weighted average Preferred B shares outstanding	909	601	
Weighted average common shares outstanding	7,617	5,868	
Weighted average operating partnership minority units outstanding	1,856	1,843	

Funds from operations in 2004 totaled \$11.5 million, an increase of 22.9% compared to 2003. Funds from operations in 2003 totaled \$9.3 million, a

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decrease of 6.9% compared to \$10.0 million in 2002. These comparisons reflect the positive impact of new apartment communities and improved margins in apartment operations in 2004, unlike the declining margins in apartment operations in 2003 as compared to 2002.

23

Funds available for distribution totaled \$9.9 million in 2004, an increase of 26.4% compared to 2003. Funds available for distribution totaled \$7.9 million in 2003, a decrease of 10.8% compared to \$8.9 million in 2002. The variance in comparison of FAD and FFO reflects the impact of recurring capital expenditures for operating replacements and major capital replacements at our older communities. Recurring capital expenditures averaged \$354 per apartment unit in 2004, \$374 per apartment unit in 2003, and \$369 per apartment unit in 2002.

### Capital Resources and Liquidity

#### Capital Resources

We intend to pursue our growth strategy through the utilization of our flexible capital structure. This may include the issuance of operating partnership units, common stock and/or preferred stock, additional debt, and joint venture investments. We may use our lines of credit or variable- and fixed-rate, long-term debt to acquire and refinance apartment communities.

#### Long-term Debt

All of our properties are encumbered by or serve as collateral for debt. As of December 31, 2004, total long-term debt was \$286.4 million, including \$215.6 million at effective fixed interest rates ranging from 5.0% to 8.6%, and \$70.8 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding at December 31, 2004, was 5.9%, compared to 5.8% at December 31, 2003.

During 2004, we issued \$58 million in four new fixed-rate notes payable at effective rates ranging from 5.0% to 5.7%, and retired a fixed-rate note payable at 8.5%. As a result of these transactions, the weighted average rate on our fixed-rate notes payable declined from 6.8% at the end of 2003 to 6.4% at the end of 2004.

Also during 2004, we issued \$34 million in new variable-rates notes, retired one \$14 million variable-rate note, and reduced our variable-rate line of credit by \$10 million, for a net increase in variable-rate notes payable of \$10 million. The weighted average rate on our variable-rate notes payable increased from 2.9% at the end of 2003 to 4.2% at the end of 2004, primarily as a result of increases in variable rates during the last half of 2004. At our level of variable-rate debt, a 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by \$720,000.

In June 2004, we modified our revolving line of credit with a bank secured by the Latitudes Apartments to increase the maximum loan amount to \$30.0 million, extend the term of the loan through November 2007, and reduce the variable interest rate on outstanding amounts to 30-day LIBOR plus 1.65%. We currently have \$19 million available for draw under this line of credit.

A summary of scheduled principal payments on long-term debt is included in Item 7A, Quantitative and Qualitative Disclosures about Market Risk, and the notes to the financial statements in this Annual Report. Significant scheduled balloon payments include maturities of:

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- o our deed of trust loan for Harris Hill Apartments, due June 2005 (\$5.5 million outstanding at December 31, 2004);
- o our line of credit secured by deeds of trust and assignments of rents of our restaurant properties, due January 2006 (\$16.3 million outstanding at December 31, 2004);
- o our revolving line of credit secured by a deed of trust and assignment of rents of Latitudes Apartments, due November 2007 (up to \$30.0 million, \$10.2 million outstanding at December 31, 2004);
- o deed of trust loans for six apartment communities due in 2007 totaling \$57.8 million;

24

- o deed of trust loans for five apartment communities due in 2008 totaling \$36.5 million; and
- o deed of trust loans for five apartment communities due in 2009 totaling \$52.5 million.

The deed of trust loan for Harris Hill Apartments expires in June 2005. Based on our estimate of the underlying value of the property, we expect to refinance this loan at a lower rate than the 8.55% loan currently in place.

### Capital Stock and Operating Partnership Units

At December 31, 2004, we had 8.7 million common shares and 0.9 million preferred shares outstanding. In addition, there were 1.8 million operating partnership minority common units outstanding.

During 2004, we issued 2.6 million new common shares, through two placements, to a number of institutional investors and mutual funds, for net proceeds of \$30.0 million. We also issued 66,000 common shares through our Dividend Reinvestment and Stock Purchase Plan for proceeds of \$0.8 million, and 60,000 common shares through our employee Stock Option and Incentive Plan for net proceeds of \$0.7 million. We applied these proceeds to acquire apartment properties and reduce our operating line of credit. In addition, we issued 25,000 common shares in non-cash transactions to redeem a like number of operating partnership minority units.

In addition, during 2004 the operating partnership issued 49,000 common units in conjunction with acquisitions of apartment properties. All of the operating partnership units held by minority interest owners were issued in 1997 through 2004 in conjunction with acquisitions of apartment communities. Holders of operating partnership units generally are able to redeem their units for cash or, at our option, for shares of our common stock on a one-for-one basis after one year from issuance.

### Cash Flows and Liquidity

Net cash flows from operating activities totaled \$12.7 million in 2004, \$9.6 million in 2003, and \$10.1 million in 2002. The increase in cash flows from operating activities in 2004 is primarily attributable to the positive impact of new apartment communities in 2003 and 2004 and improvements in apartment operating results. Investing and financing activities focused primarily on apartment acquisitions and capital expenditures at apartment communities, along with payments of dividends and distributions. During the three-year period, we acquired a total of ten apartment communities - five in 2004, two in 2003, and three in 2002.

We paid dividends to common shareholders of \$0.25 per share per quarter in each quarter of 2004 and 2003, and \$0.31 per share per quarter in each quarter of 2002. Our payout ratio (the ratio of common dividends plus

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distributions paid, divided by operating partnership funds from operations) was 82.1% in 2004, 82.5% in 2003, and 93.4% in 2002. We intend to pay dividends quarterly, expect that these dividends will substantially exceed the 90% distribution requirement for REITs, and anticipate that all dividends will be paid from current funds from operations.

We generally expect to meet our short-term liquidity requirements through net cash provided by operations and utilization of credit facilities. We believe that net cash provided by operations is, and will continue to be, adequate to meet the REIT operating requirements in both the short- and the long term. We anticipate funding our future acquisition activities primarily by using short-term credit facilities as an interim measure, to be replaced by funds from equity offerings, long-term debt, or joint venture investments. We expect to meet our long-term liquidity requirements, such as scheduled debt maturities and repayment of short-term financing of possible property acquisitions, through long-term secured and unsecured borrowings and the issuance of debt securities or additional equity securities. We believe we have sufficient resources to meet our short-term liquidity requirements.

We received 7.5% of our revenue in 2004, 9.2% of our revenue in 2003, and 10.5% of our revenue in 2002, from rent received from Boddie-Noell Enterprises for the use of our restaurant properties. In

25

addition, Enterprises is responsible for all of the costs associated with the maintenance and operations of these properties. Over time, we expect that restaurant rental income will continue to represent a decreasing percentage of our total revenue.

Enterprises is a privately owned company with total assets exceeding \$240 million and net equity exceeding \$90 million. Its principal line of business is the operation of 317 Hardee's restaurants. In addition to its Hardee's operations, Enterprises is the owner of Texas Steakhouse and Saloon, a casual dining concept with 29 restaurants; Cafe Carolina, a cafe bakery/fast casual dining concept with seven restaurants; and BBQ and Ribs, a fast-food barbeque concept with two restaurants. Enterprises also operates four Moe's Southwestern Grills. In addition to its restaurant operations, Enterprises conducts extensive real estate investment and development activities through BNE Land and Development. These activities involve a full range of property types, including land, commercial, retail, office, apartment and single-family properties. We have had extensive discussions with management of Enterprises and have reviewed their financial statements, cash flow analysis, restaurant contribution analysis, sales trend analysis and forecasts. We believe that Enterprises will have sufficient liquidity and capital resources to meet its obligations under the master lease as well as its general corporate operating needs.

### Contractual obligations

In December 2004, we entered into agreements to acquire a portfolio of four apartment communities containing a total of 1,086 apartment units. The aggregate purchase price for the properties will be approximately \$51.8 million, and consists of the assumption or refinancing of up to \$43.2 million of debt on the properties, with the remaining amount (estimated at \$8.6 million) to be paid in operating partnership units. We expect to complete these acquisitions by the end of March 2005. We currently manage these apartment communities on a contract basis.

Our other contractual obligations as of December 31, 2004, are summarized as follows (all amounts in thousands):

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	Total	Payments due by period		
		Less than 1 year	1 - 3 years	3 - 5 years
Long-term debt obligations	\$286,425	\$7,869	\$87,325	\$102,007
Operating lease - corporate office	630	180	360	90
Purchase obligation - reconstruction of apartment building at Latitudes	705	705	-	-
<b>Total</b>	<b>\$287,760</b>	<b>\$8,754</b>	<b>\$87,685</b>	<b>\$102,097</b>

### Off balance sheet arrangements

In January 2005, we acquired Boddie Investment Company ("BIC") through a merger. We issued 508,578 shares of common stock, and cancelled 72,399 shares of common stock that BIC held immediately before the merger. The value of this transaction was \$8.2 million. As a result of this acquisition, we have assumed the role of general partner and acquired certain economic interests in three limited partnerships (50% interest in Marina Shores Associates One Limited Partnership, 1% interest in The Villages of Chapel Hill Limited Partnership, and 1% interest in The Villages of Chapel Hill - Phase 5 Limited Partnership). Prior to this acquisition, we managed the apartment communities owned by these partnerships on a contract basis; we will continue to manage these properties.

We expect that, going forward, we will include the accounts of Marina Shores Apartments in our consolidated financial statements, and that Marina Shores will generate revenues, expenses and cash flows commensurate with the properties in which we own 100% interest. We have not completed the detailed

26

analyses necessary to determine whether we will consolidate The Villages of Chapel Hill and The Villages of Chapel Hill - Phase 5; however, we do not expect that our 1% interest in these partnerships will have a significant impact on our financial condition or operating results.

### Inflation

We do not believe that inflation poses a material risk to the company. The leases at our apartment properties are short term in nature. None are longer than two years. The restaurant properties are leased on a triple-net basis, which places the risk of rising operating and maintenance costs on the lessee.

### Environmental Matters

Phase I environmental studies performed on the apartment communities when we acquired each of them did not identify any problems that we believe would have a material adverse effect on our results of operations, liquidity or capital resources. Environmental transaction screens for each of the restaurant properties in 1995 did not indicate existence of any environmental problems that warranted further investigation. Enterprises has indemnified us under the master lease for environmental problems associated with the restaurant properties.

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### Additional Information

We provide the following information to analysts and other members of the financial community for use in their detailed analysis. This information has not been included in our Annual Report to Shareholders.

A summary of capital expenditures, in aggregate and per apartment unit, follows:

	2004		2003		2002
	Total	Per unit	Total	Per unit	Total
	(000's)		(000's)		(000's)
<b>Recurring capital expenditures:</b>					
Floor coverings	\$ 775	\$143	\$ 772	\$167	\$ 593
Appliances/HVAC	385	71	256	55	212
Exterior paint	-	-	183	39	182
Computer/support equipment	4	1	85	18	102
Other	754	139	436	94	396
	<u>\$1,918</u>	<u>\$354</u>	<u>\$1,731</u>	<u>\$374</u>	<u>\$1,484</u>
<b>Non-recurring capital expenditures:</b>					
Acquisition improvements	\$1,104		\$1,053		\$ 861
Additions and betterments	1,541		508		303
Replacements of casualty losses	526		-		-
Computer/support equipment	72		57		84
	<u>\$3,243</u>		<u>\$1,619</u>		<u>\$1,248</u>

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A summary of long-term debt as of December 31, 2004 and 2003 is included in the notes to the financial statements in this Annual Report. At December 31, 2004, long-term debt totaled \$286.4 million, including \$215.6 million notes payable at fixed interest rates ranging from 5.0% to 8.6%, and \$70.8 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 5.9% at December 31, 2004, 5.8% at December 31, 2003, and 6.1% at December 31, 2002. At our

27

current level of variable-rate debt, a 1% change in variable interest rates would increase or decrease our annual interest expense by \$720,000.

The table below provides information about our long-term debt instruments and presents expected principal maturities and related weighted average interest rates on those instruments (all amounts in thousands):

	Expected maturity dates					Later
	2005	2006	2007	2008	2009	
	-----	-----	-----	-----	-----	-----

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Fixed rate notes	\$ 6,784	\$ 1,597	\$49,536	\$38,453	\$29,996	\$89,224
Average interest rate	8.12%	6.08%	6.93%	6.55%	5.28%	6.29%
Variable rate notes	\$ 1,085	\$15,745	\$20,446	\$ 774	\$32,784	\$ -
Average interest rate	4.27%	4.26%	4.21%	4.22%	4.22%	

We estimate the fair value of fixed-rate and variable-rate notes using discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our notes payable at December 31, 2004, totaled \$296 million.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data are listed under Item 15(a) and filed as part of this Annual Report on the pages indicated.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A. CONTROLS AND PROCEDURES

#### Management's Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

We have performed a review and evaluation, under the supervision and with the participation of management, including the Chief Executive Officer, the Chief Financial Officer and the Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report on Form 10-K. Based on our review and evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of December 31, 2004, our disclosure controls and procedures, as designed and implemented, were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required, including reasonable assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

#### Management Report on Internal Control Over Financial Reporting

Management of the company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- o pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of



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the company's assets;

- o provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and Directors of the company; and
- o provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

There are inherent limitations to the effectiveness of any system of internal controls, including the possibility of human error and the circumvention or overriding of controls and procedures. Accordingly, even effective internal control over financial reporting may not prevent or detect misstatements. Further, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2004. In making this assessment, management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment, the company's management believes that, as of December 31, 2004, the company's internal control over financial reporting was effective based on those criteria.

Our independent auditors, Ernst & Young, have issued an audit report on management's assessment of the company's internal control over financial reporting, a copy of which is included herein.

### Changes in Internal Control Over Financial Reporting

There have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the date of their evaluation. There were no material weaknesses identified in the course of our review and evaluation.

### Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
BNP Residential Properties, Inc.

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that BNP Residential Properties, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). BNP Residential Properties Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable

assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that BNP Residential Properties, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, BNP Residential Properties, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of BNP Residential Properties, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004 of BNP Residential Properties, Inc. and our report dated March 2, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Greenville, South Carolina  
March 2, 2005

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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The current directors hold office for the terms described below or until their successors are elected and qualified. The current members of our Board of Directors are identified in the following table, followed by biographical information on each member.

30

Name	Age	Position	Direct
-----			
Directors serving until the 2005 annual meeting:			
D. Scott Wilkerson	47	Director, President, Chief Executive Officer	December
Paul G. Chrysson	50	Director	December
Peter J. Weidhorn	57	Series B Director (1)	December
Directors serving until the 2006 annual meeting:			
W. Michael Gilley	49	Director	December
Directors serving until the 2007 annual meeting:			
Philip S. Payne	53	Chairman, Chief Financial Officer	December
Stephen R. Blank	59	Director	May 1999

Philip S. Payne - Chairman of the Board of Directors, Chief Financial Officer. Mr. Payne joined BT Venture Corporation, which was subsequently purchased by the company, in 1990 as Vice President of Capital Markets Activities and became Executive Vice President and Chief Financial Officer in January 1993. He was named Treasurer in April 1995 and a Director in December 1997. In January 2004, Mr. Payne was named Chairman of the Board of Directors and continues in his role as Chief Financial Officer. From 1987 to 1990, he was a principal in Payne Knowles Investment Group, a financial planning firm. From 1983 to 1987, he was a registered representative with Legg Mason Wood Walker. From 1978 to 1983, Mr. Payne practiced law, and he currently maintains his license to practice law in Virginia. He received a BS degree from the College of William and Mary in 1973 and a JD degree in 1978 from the same institution. He is a member of the board of directors of the National Multi Housing Council and is a member of the Urban Land Institute (Multi Family Council - Gold). In addition, he is a member of the board of directors of Ashford Hospitality Trust, a REIT focused on the hospitality industry, and serves as chairman of its audit committee.

D. Scott Wilkerson - Director, President, Chief Executive Officer. Mr. Wilkerson joined BT Venture Corporation, which was subsequently purchased by the company, in 1987 and served in various officer-level positions, including Vice President of Administration and Finance and Vice President for Acquisitions and Development before becoming President in January 1994. He was named Chief Executive Officer in April 1995 and a Director in December 1997. From 1980 to 1986, Mr. Wilkerson was with Arthur Andersen LLP in Charlotte, North Carolina, serving as tax manager from 1985 to 1986. His specialization was in the representation of real estate investors, developers and management companies. Mr. Wilkerson received a BS degree in accounting from the University of North Carolina at Charlotte in 1980. He is a certified public accountant and licensed real estate broker. He serves on the boards of directors of the National Multi Housing Council and the National Apartment Association. He is President of the Apartment Association of North Carolina and is a past president of the Charlotte Apartment Association. He is active in various professional, civic and charitable activities.

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Stephen R. Blank - Director. Mr. Blank is a Senior Fellow, Finance, with the Urban Land Institute, and an Adjunct Professor at the Columbia University Graduate School of Business. From 1993 to 1998, he was the Managing Director for Real Estate Investment Banking with CIBC Oppenheimer Corp. He is an independent trustee of Ramco-Gershenson Properties Trust and Atlantic Realty Trust, and serves on the boards of directors of WestCoast Hospitality Corporation and MFA Mortgage Investments, Inc. In addition, he serves as a member of the board of advisors of Paloma, LLC, the principal investor in a private multifamily real estate investment trust. Mr. Blank serves as the chair of the audit committees for both Ramco-Gershenson Properties Trust and MFA Mortgage Investments, Inc. He has over 20 years experience as a senior real estate investment banking officer, advising and evaluating a wide array of real estate companies, including publicly reporting companies.

31

Paul G. Chrysson - Director. Mr. Chrysson is President of C.B. Development Company, Inc., a developer of single-family and multi-family residential properties. Mr. Chrysson is a member of the Board of Advisors of Wachovia Bank (Forsyth County). He is a former director of Triad Bank and United Carolina Bank (North Carolina) and has served on the boards of various charitable organizations. He has been a licensed real estate broker since 1974 and has been actively involved in construction since 1978.

W. Michael Gilley - Director. Mr. Gilley is a private real estate investor and developer of single-family and multi-family residential properties. From January 1995 to January 1997, he was Executive Vice President of Greenbriar Corporation. He also served on their board of directors from September 1994 to September 1996. He has been a licensed real estate broker since 1984.

Peter J. Weidhorn - Series B Director. Mr. Weidhorn is a consultant and private real estate investor in the multi-family housing market. From 1998 to 2000, he was Chairman of the Board, President and Director of WNY Group, Inc., a real estate investment trust that owned and operated 8,000 apartment units throughout New Jersey, Pennsylvania, Delaware and Maryland prior to its sale to the Kushner Companies. From 1981 to 1998, he was President of WNY Management Corp. Mr. Weidhorn serves on the boards of directors of Monmouth Real Estate Investment Corporation and The Community Development Trust, and is a past president of the New Jersey Apartment Association. Mr. Weidhorn currently serves as the chair of the audit committee of Monmouth Real Estate Investment Corporation and as a member of the audit committee of The Community Development Trust. He has over 30 years of experience in the management, acquisition, and financing of commercial real estate. Mr. Weidhorn is a certified public accountant (inactive). He is active in various professional, civic and charitable activities.

Information about our executive officers is included in Part I, Item X. Executive Officers of the Registrant, in this Annual Report.

### Audit Committee Financial Experts

The members of our Audit Committee are Messrs. Blank, Gilley, and Weidhorn. Our Board of Directors has determined that Messrs. Blank and Weidhorn qualify as "audit committee financial experts" as defined by SEC regulations. All three members are considered "independent" as defined by SEC regulations and rules of the American Stock Exchange, and "financially literate" under the rules of the American Stock Exchange. Messrs. Blank's and Weidhorn's relevant experience is described above in the biographical information for each.

### Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on a review of the copies of the forms in its possession,

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and on written representations from certain reporting persons, the company believes that during 2004 all of its executive officers and directors filed the reports required under Section 16(a) on a timely basis.

### Code of Ethics

Our Board of Directors has adopted a Code of Conduct and Business Ethics that is applicable to all directors, officers and employees of the company. You may view this document at our Internet website at [www.bnp-residential.com](http://www.bnp-residential.com). You may obtain a copy of this document free of charge by mailing a written request to: Investor Relations, BNP Residential Properties, Inc., 301 South College Street, Suite 3850, Charlotte, NC 28202, or by sending an email request to: [investor.relations@bnp-residential.com](mailto:investor.relations@bnp-residential.com).

32

### ITEM 11. EXECUTIVE COMPENSATION

#### Executive Compensation

The following tables provide information regarding the annual and long-term compensation of our chief executive officer, and the other most highly paid executive officers whose total salary and bonus exceeded \$100,000 in 2004. We refer to them as the "named executive officers."

Name and Principal Position	Year	Annual Compensation			Other
		Salary	Bonus		
D. Scott Wilkerson, President, Chief Executive Officer	2004	\$228,750	\$11,250		\$
	2003	225,000	-		
	2002	200,000	25,000		
Philip S. Payne, Chairman of the Board of Directors, Chief Financial Officer	2004	\$228,750	\$11,250		\$
	2003	225,000	-		
	2002	200,000	25,000		
Eric S. Rohm, Vice President, Secretary, General Counsel	2004	\$145,000	\$15,000		
	2003	140,000	-		
Pamela B. Bruno, Vice President, Treasurer, Chief Accounting Officer, Assistant Secretary	2004	\$145,000	\$15,000		\$
	2003	136,250	18,750		
	2002	125,000	-		

The following table provides information regarding exercises of stock options by named executive officers during 2004 as well as the value of unexercised stock options held by named executive officers as of December 31, 2004. No options were granted during the year ended December 31, 2004.

Number of Shares Acquired in	Value Realized in	Number of Securities Underlying Unexercised Options at Fiscal Year End	Value of Unexercised
			In-the-Money Options Fiscal Year End

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Name	Exercise	Exercise	Exercisable/Unexercisable	Exercisable/Unexercisable
D. Scott Wilkerson	43,844	\$59,189	100,000	-
Philip S. Payne	50,000	67,500	100,000	-
Pamela B. Bruno	6,000	8,100	30,000	-

We do not have a long-term incentive plan in place other than our Stock Option and Incentive Plan described in Item 12 below.

### Compensation of Directors

During 2004, we paid directors' fees to each director who is not an executive officer of the company. During the year ended December 31, 2004, Messrs. Blank, Chrysson, Gilley, and Weidhorn were

33

each paid annual retainers of \$12,000 plus fees totaling \$5,650 each for participation in board meetings. In addition, Messrs. Blank, Gilley and Weidhorn each received \$200 for participation in Audit Committee meetings. Messrs. Wilkerson and Payne did not receive any compensation for their service as directors.

### Employment Contracts and Termination of Employment and Change-in-Control Arrangements

In July 1997, we entered into substantially identical employment agreements with D. Scott Wilkerson (President and Chief Executive Officer) and Philip S. Payne (Chief Financial Officer). The term of the agreements is four years, subject to automatic annual renewal for additional one-year periods extending the term to a maximum of ten years. The agreements provide for initial annual base salaries of \$139,920, annual discretionary bonuses as determined by the Board of Directors and participation in an incentive compensation plan, along with specified death and disability benefits. The agreements provide for severance payments equal to the then current base salary for the remaining term of the contract (excluding any unexercised renewal periods) in the event of termination without cause. In the event of a change in control of the company, the agreements provide for payments of three times base salary then in effect and three times average discretionary bonus and annual bonus over the prior three fiscal years. In addition, the agreements provide for a lump sum cash payment of the benefit the executive would otherwise have received had all stock options and other stock based compensation been fully vested, been exercised and become due and payable.

In July 1997, we entered into an employment agreement with Pamela B. Bruno (Vice President, Treasurer, Chief Accounting Officer and Assistant Secretary). The two-year agreement (with automatic annual renewal periods) is substantially identical to the agreements signed by Messrs. Wilkerson and Payne, except that this agreement provides for an initial annual base salary of \$90,000 and limits severance payments to no more than the greater of the then-remaining term of the agreement or one year's total compensation.

In December 2002, we entered into an employment agreement with Eric S. Rohm (Vice President, Secretary and General Counsel). The two-year agreement (with automatic annual renewal periods) is substantially identical to the agreement signed by Ms. Bruno, except that this agreement provides for an

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initial annual base salary of \$140,000.

### Compensation Committee Interlocks and Insider Participation

The members of our Compensation Committee are Messrs. Blank, Chrysson and Weidhorn. All three members are considered "independent" as defined by SEC regulations and rules of the American Stock Exchange. Mr. Weidhorn is identified in Item 13. Certain Relationships and Related Transactions in our discussion of "BNP Residential Properties, Inc. and Preferred Investment I, LLC." Mr. Chrysson is identified in Item 13 in our discussion of "BNP Residential Properties, Inc. and the Chrysson Parties."

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

#### Equity Compensation Plan

We have reserved 470,000 shares of the company's common stock for issuance under our employee Stock Option and Incentive Plan. Options have been granted to employees at prices equal to the fair market value of the stock on the dates the options were granted or repriced. Options are generally exercisable in four annual installments beginning one year after the date of grant, and expire ten years after the date of grant.

The following table provides summary information about securities to be issued under our equity compensation plan. More detailed information is provided in the notes to our financial statements included in this Annual Report.

34

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of shares remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	327,500	\$12.04	1,000,000
Equity compensation plans not approved by security holders	-	-	-
Total	327,500	\$12.04	1,000,000

#### Security Ownership of Certain Beneficial Owners and Management - Common Stock

The following table provides certain information regarding beneficial ownership of common stock as of February 23, 2005, by each person or group known to be the beneficial owner of more than 5% of the company's common stock.

Common Shares

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Name and address of beneficial owner	Beneficially Owned Number	Percent
B. Mayo Boddie P. O. Box 1908, Rocky Mount, NC 27802	436,038	5.3%
Kensington Investment Group, Inc. 4 Orinda Way, Suite 200C, Orinda, CA 94563	457,900	5.0%
Preferred Investment I, LLC (1) 60 Thomas Drive, Manalapan, NJ 07726	909,090	9.1%

(1) Includes 909,090 shares of Series B Cumulative Convertible Preferred stock owned by Preferred Investment I, LLC which is convertible into common shares on a one-to-one basis.

The following table provides certain information regarding beneficial ownership of common stock as of February 23, 2005, by each of the directors and named executive officers, and by all directors and officers as a group.

Directors and Officers (1)	Common Shares Beneficially Owned Number	Percent
Philip S. Payne (2)	189,570	2.1%
D. Scott Wilkerson (2)	143,343	1.6%
Stephen R. Blank	1,000	*
Paul G. Chrysson (3)	267,612	2.9%
W. Michael Gilley (4)	265,991	2.8%
Peter J. Weidhorn (5)	917,290	9.2%
Eric S. Rohm	-0-	*
Pamela B. Bruno (6)	40,334	*

35

Directors and Officers (1)	Common Shares Beneficially Owned Number	Percent
All directors and executive officers as a group (8 persons) (7)	1,825,140	17.0%

\* Less than 1 percent.

- (1) Address for each person listed herein is 301 South College Street, Suite 3850, Charlotte NC 28202.
- (2) Includes exercisable options for 100,000 shares of common stock.
- (3) Includes 250,612 shares issuable (at the company's option) in satisfaction of the right to redeem the same number of units owned by Mr. Chrysson in the operating partnership.
- (4) Includes 265,991 shares issuable (at the company's option) in satisfaction of the right to redeem the same number of units owned by Mr. Gilley in the operating partnership.
- (5) Includes 909,090 shares of Series B Cumulative Convertible Preferred stock owned by Preferred Investment I, LLC (of which Mr. Weidhorn is the managing director) which is convertible into common shares on a one-to-one basis.
- (6) Includes exercisable options for 30,000 shares of common stock.
- (7) Includes exercisable options for 230,000 shares, 909,090 shares issuable upon conversion of Series B Cumulative Convertible Preferred stock, and 516,603 shares issuable (at the company's option) in satisfaction of the right to redeem the same number of units in the operating partnership.



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### Security Ownership of Certain Beneficial Owners and Management - Preferred Stock

The following table provides certain information regarding beneficial ownership of Series B Cumulative Convertible Preferred stock as of February 23, 2005. These shares have limited voting rights.

Name and address of beneficial owner	Series B Preferred Shares Beneficially Owned Number	Percent
Preferred Investment I, LLC 60 Thomas Drive, Manalapan, NJ 07726	909,090	100.0%

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

#### BNP Residential Properties, Inc. and Preferred Investment I, LLC

During 2001 through 2003, we issued a total of 909,090 shares of our Series B Cumulative Convertible Preferred Stock to Preferred Investment I, LLC for net proceeds of \$9.6 million. We describe and discuss these transactions in the notes to our financial statements.

Peter J. Weidhorn, the managing member of Preferred Investment I, LLC, serves as the Series B Director on our Board of Directors.

#### BNP Residential Properties, Inc. and Boddie-Noell Enterprises, Inc.

We lease 40 restaurant properties to Boddie-Noell Enterprises, Inc. ("Enterprises") under a master lease on a triple-net basis. We describe and discuss this relationship in the notes to our financial statements and at Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Cash Flows and Liquidity.

36

B. Mayo Boddie served on our Board of Directors from the company's inception in 1987 until May 2004. Mr. Boddie is Chairman of the Board of Directors and Chief Executive Officer of Enterprises. Mr. Boddie and certain of his family members, including Nicholas B. Boddie, are the sole owners of Enterprises.

Douglas E. Anderson served as Vice President and Secretary of our company from our inception in 1987 until May 2004. He has been with Enterprises since 1977 and is currently a director, executive vice president and secretary of Enterprises. Mr. Anderson is also president of BNE Land and Development Company, the real estate development division of Enterprises.

#### BNP Residential Properties, Inc. and Boddie Investment Company

We provided fee management for three limited partnerships, of which Boddie Investment Company ("BIC") was the general partner, and the apartment communities owned by those partnerships, until January 2005. We recorded fee revenues totaling \$409,000 from these limited partnerships in 2004.

In January 2005, we acquired BIC in exchange for 508,578 shares of our common stock, valued at \$8.2 million, which we issued to Messrs. Boddie and Boddie. As part of this acquisition, BIC surrendered, and we cancelled, 72,399

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shares of our common stock valued at \$1.2 million. As a result of this acquisition, we have assumed the role of general partner and acquired the economic interests in the three limited partnerships to which we previously provided fee management services. We will continue to manage the properties following this acquisition.

In addition, we are the lender in a participating loan agreement with The Villages of Chapel Hill Limited Partnership, one of the limited partnerships identified above. We describe and discuss this relationship in the notes to our financial statements.

Messrs. Boddie and Boddie were the sole shareholders and directors of Boddie Investment Company. Mr. Anderson was vice president and secretary of Boddie Investment Company.

### BNP Residential Properties, Inc. and the Chrysson Parties

In July 2004, we acquired Savannah Shores Apartments and issued 7,695 operating partnership common units to members of a group that we refer to as the Chrysson Parties. Prior to this acquisition, we managed this community on a contract basis. In previous years during 1997 through 2002, we issued 1.5 million operating partnership common units to acquire eight apartment communities from this group. We describe and discuss this relationship in the notes to our financial statements.

Messrs. Chrysson and Gilley, who serve on our Board of Directors, are members of the Chrysson Parties.

### Notes Receivable from Management

In 1996 through 1999, Messrs. Wilkerson and Payne each borrowed \$70,000 on an interest-free basis from the company. The loans are secured by shares of the company's common stock and are payable in full six months after termination of employment.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Ernst & Young LLP has served as our principal accountant and independent auditor since October 1996.

37

The Board of Directors, upon the recommendation of the Audit Committee, engaged Ernst & Young LLP to serve as our independent auditors for the fiscal years ending December 31, 2004 and 2003. The Audit Committee also approves in advance all engagements of Ernst & Young LLP for audit-related, tax and other services.

The following table reflects fees billed by Ernst & Young LLP for services rendered to the company and its subsidiaries in 2004 and 2003:

Nature of Services	2004
Audit fees - For audit of our annual financial statements, audit of internal control over financial reporting (in 2004), and review of financial statements included in our Forms 10-Q	\$224,000

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Audit-related fees -	174,000
For services related to business acquisitions, accounting consultations, SEC registration statements, and audit of the company's 401(k) plan	
Tax fees -	115,000
For tax compliance, tax advice, and tax planning	
All other fees - (none in 2004 or 2003)	-

### PART IV

#### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

##### (a) 1. and 2. Financial Statements and Schedules

The financial statements and schedules listed below are filed as part of this Annual Report on the pages indicated.

#### Index to Financial Statements and Schedules

##### BNP Residential Properties, Inc. Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2004 and 2003

Consolidated Statements of Operations for the Years Ended

December 31, 2004, 2003, and 2002

Consolidated Statements of Shareholders' Equity for the Years Ended

December 31, 2004, 2003, and 2002

Consolidated Statements of Cash Flows for the Years Ended

December 31, 2004, 2003, and 2002

Notes to Consolidated Financial Statements

##### Statements of Revenue and Certain Operating Expenses of Acquired Properties

Oakwood Raleigh Apartments - For the year ended December 31, 2003, and for the unaudited 64 period January 1 through May 11, 2004

Carriage Club Apartments - For the year ended December 31, 2003, and for the unaudited period January 1 through June 28, 2004

38

Savannah Shores Apartments - For the years ended December 31, 2003 and 2002, and for the period January 1 through June 30, 2004

Fairington Apartments - For the year ended December 31, 2003, and for the unaudited period January 1 through August 4, 2004

Sterling Park Apartments - (Unaudited) - For the year ended December 31, 2003, and for the period January 1 through September 29, 2004

##### Schedules:

Schedule III - Real Estate and Accumulated Depreciation

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The financial statements and schedules are filed as part of this report. All other schedules are omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

(a) 3. Exhibits

The Registrant agrees to furnish a copy of all agreements related to long-term debt upon request of the Commission.

Exhibit No.

- 2.1\* Master Agreement of Merger and Acquisition by and among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, Paul G. Chrysson, James G. Chrysson, W. Michael Gilley, Matthew G. Gallins, James D. Yopp, and the partnerships and limited liability companies listed therein, dated September 22, 1997 (filed as Exhibit 2.1 to Registration Statement No. 333-39803 on Form S-2, December 16, 1997, and incorporated herein by reference)
- 2.2\* Amendment to Master Agreement of Merger and Acquisition dated September 22, 1997, by and among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, Paul G. Chrysson, James G. Chrysson, W. Michael Gilley, Matthew G. Gallins, James D. Yopp, and the partnerships and limited liability companies listed therein, dated November 3, 1997 (filed as Exhibit 2.3 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 1, 1997, and incorporated herein by reference)
- 3.1\* Articles of Incorporation (filed as Exhibit 3.1 to BNP Residential Properties, Inc., Current Report on Form 8-K dated March 17, 1999, and incorporated herein by reference)
- 3.2\* Articles Supplementary, Classifying and Designating 909,090 Shares of Series B Cumulative Convertible Preferred Stock, dated December 28, 2001 (filed as Exhibit 3.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
- 3.3\* Amended and Restated By-Laws adopted May 20, 2004 (filed as Exhibit 3.1 to BNP Residential Properties, Inc., Current Report on Form 8-K dated July 14, 2004, and incorporated herein by reference)
- 4.1\* Rights Agreement, dated March 18, 1999, between the Company and First Union National Bank (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated March 17, 1999, and incorporated herein by reference)
- 4.2\* Registration Rights Agreement By and Among BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
- 10.1\* Second Amended and Restated Agreement of Limited Partnership of BNP Residential Properties Limited Partnership dated as of March 17, 1999 (filed as Exhibit 10.1 to the  
company's Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated herein by reference)
- 10.2\* Amendment to Second Amended and Restated Agreement of Limited Partnership of BNP Residential Properties Limited Partnership, dated December 28, 2001 (filed as Exhibit 10.1 to BNP

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- Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
- 10.3\* Investment Agreement By and Between BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as Exhibit 10.2 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
- 10.4\* Amended and Restated Master Lease Agreement dated December 21, 1995, between BNP Residential Properties, Inc. and Boddie-Noell Enterprises, Inc. (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Annual Report on Form 10-K dated December 31, 1995, and incorporated herein by reference)
- 10.5\* Amended and Restated 1994 Stock Option and Incentive Plan (filed as Exhibit 10.8 to BNP Residential Properties, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, and incorporated by reference herein)
- 10.6\* Form and description of Employment Agreements dated July 15, 1997, and December 1, 2002, between BNP Residential Properties, Inc. and certain officers (filed as Exhibit 10 to BNP Residential Properties, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 1997; and as Exhibit 10.7 to BNP Residential Properties, Inc. Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference)
- 10.7\* Purchase Agreement by and among BNP Residential Properties, Inc. and Purchasers for 1,175,519 shares of common stock, dated as of February 17, 2004 (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated February 23, 2004, and incorporated herein by reference)
- 10.8\* Purchase Agreement by and among BNP Residential Properties, Inc. and Purchasers for 1,420,000 shares of common stock, dated as of July 14, 2004 (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated July 14, 2004, and incorporated herein by reference)
- 10.9 Exchange Agreement among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, and Beach Investment Properties, LLC and members thereof, dated as of December 7, 2004
- 10.10 Exchange Agreement among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, and Timberline Ventures, LLC and members thereof, dated as of December 7, 2004
- 10.11 Exchange Agreement among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, and Laurel Springs II, LLC and members thereof, dated as December 7, 2004
- 10.12 Exchange Agreement among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, and Salem Ridge/Shugart, LLC and members thereof, dated as of December 7, 2004
- 21 Subsidiaries of the Registrant
- 23 Consent of Ernst & Young LLP
- 31.1 Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer
- 32.1 Section 1350 Certification by Chief Executive Officer
- 32.2 Section 1350 Certification by Chief Financial Officer

\* Incorporated herein by reference

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

BNP RESIDENTIAL PROPERTIES, INC.  
(Registrant)

Date: March 3, 2005

/s/ Philip S. Payne  
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Philip S. Payne  
Chairman of the Board of Directors,  
Chief Financial Officer

Date: March 3, 2005

/s/ Pamela B. Bruno  
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Pamela B. Bruno  
Vice President,  
Chief Accounting Officer

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

Signature:	Title:	Date:
/s/ Philip S. Payne ----- Philip S. Payne	Chairman of the Board of Directors, Chief Financial Officer	March 3, 2005
/s/ D. Scott Wilkerson ----- D. Scott Wilkerson Officer, Director	President, Chief Executive	March 3, 2005
/s/ Pamela B. Bruno ----- Pamela B. Bruno	Vice President, Treasurer, Chief Accounting Officer	March 3, 2005
/s/ Stephen R. Blank ----- Stephen R. Blank	Director	March 3, 2005
/s/ Paul G. Chrysson ----- Paul G. Chrysson	Director	March 3, 2005
/s/ W. Michael Gilley ----- W. Michael Gilley	Director	March 3, 2005
/s/ Peter J. Weidhorn ----- Peter J. Weidhorn	Director	March 3, 2005

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Peter J. Weidhorn

41

## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
BNP Residential Properties, Inc.

We have audited the accompanying consolidated balance sheets of BNP Residential Properties, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BNP Residential Properties, Inc. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of BNP Residential Properties, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Greenville, South Carolina  
March 2, 2005

42

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BNP RESIDENTIAL PROPERTIES, INC.  
 Consolidated Balance Sheets  
 (all amounts in thousands except share data)

	December 31	2004	2003
<b>Assets</b>			
Real estate investments at cost:			
Apartment properties		\$ 389,119	
Restaurant properties		37,405	
		426,525	
Less accumulated depreciation		(66,454)	
		360,071	
Cash and cash equivalents		517	
Prepaid expenses and other assets		4,516	
Intangible assets, net of accumulated amortization:			
Intangible related to acquisition of management operations		1,115	
Deferred financing costs		1,545	
		3,160	
<b>Total assets</b>		<b>\$ 367,764</b>	
<b>Liabilities and Shareholders' Equity</b>			
Deed of trust and other notes payable		\$ 286,425	
Accounts payable and accrued expenses		897	
Accrued interest on notes payable		1,264	
Deferred revenue and security deposits		1,787	
Deferred credit for interest defeasance		-	
		290,373	
Minority interest in Operating Partnership		14,394	
Shareholders' equity:			
Preferred stock, \$.01 par value, 10,000,000 shares authorized, 909,090 shares issued and outstanding at December 31, 2004, and at December 31, 2003		10,000	
Common stock, \$.01 par value, 100,000,000 shares authorized, 8,652,740 shares issued and outstanding at December 31, 2004, 5,907,133 shares issued and outstanding at December 31, 2003		87	
Additional paid-in capital		103,221	
Dividend distributions in excess of net income		(50,311)	
		62,996	
<b>Total shareholders' equity</b>		<b>62,996</b>	
<b>Total liabilities and shareholders' equity</b>		<b>\$ 367,764</b>	

See accompanying notes.



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Consolidated Statements of Operations  
(all amounts in thousands except per share amounts)

	Years ended December 31	
	2004	2003
<b>Revenues</b>		
Apartment rental income	\$ 45,808	\$ 37,475
Restaurant rental income	3,830	3,908
Management fee income	761	873
Casualty gains	269	-
Interest and other income	197	404
	50,865	42,660
<b>Expenses</b>		
Apartment operations	18,563	15,458
Apartment administration	2,210	1,711
Corporate administration	2,309	2,196
Interest	14,608	13,000
Depreciation	11,660	10,040
Amortization of deferred loan costs	375	322
Write-off of unamortized loan costs at debt refinance	85	-
	49,810	42,727
Income (loss) before minority interest	1,055	(66)
Minority interest in operating partnership	16	(174)
	1,039	107
Net income	1,039	107
Cumulative preferred dividend	1,000	661
	\$ 39	\$ (553)
	\$ 39	\$ (553)
Weighted average common shares outstanding	7,617	5,868
Per common share amounts:		
Earnings per common share - basic		
Net income	\$ 0.14	\$ 0.02
Income (loss) available to common shareholders	0.01	(0.09)
Earnings per common share - diluted		
Net income (loss)	0.11	(0.01)
Income (loss) available to common shareholders	0.01	(0.09)
Dividends declared per common share	1.00	1.00

See accompanying notes.

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BNP RESIDENTIAL PROPERTIES, INC.  
 Consolidated Statements of Shareholders' Equity  
 (all amounts in thousands)

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional paid-in capital	Dividend distributions in excess of net income
Balance December 31, 2001	227	\$ 2,500	5,745	\$ 57	\$ 69,873	\$ (30,396)
Preferred stock issued	227	2,500	-	-	(108)	-
Common stock issued	-	-	86	1	960	-
Dividends paid - preferred	-	-	-	-	-	(200)
Dividends paid - common	-	-	-	-	-	(7,163)
Net income	-	-	-	-	-	1,248
Balance December 31, 2002	454	5,000	5,831	58	70,725	(36,512)
Preferred stock issued	455	5,000	-	-	(54)	-
Common stock issued	-	-	76	1	803	-
Dividends paid - preferred	-	-	-	-	-	(537)
Dividends paid - common	-	-	-	-	-	(5,859)
Net income	-	-	-	-	-	107
Balance December 31, 2003	909	10,000	5,907	59	71,473	(42,800)
Common stock issued	-	-	2,746	27	31,747	-
Dividends paid - preferred	-	-	-	-	-	(1,000)
Dividends paid - common	-	-	-	-	-	(7,551)
Net income	-	-	-	-	-	1,039
Balance December 31, 2004	909	\$ 10,000	8,653	\$ 87	\$ 103,221	\$ (50,311)

See accompanying notes.

45

BNP RESIDENTIAL PROPERTIES, INC.  
 Consolidated Statements of Cash Flows  
 (all amounts in thousands)

	Years ended December 31 2004	2003
Operating activities		
Apartment rental receipts, net	\$ 45,717	\$ 37,491
Restaurant rental receipts	3,920	3,908
Management fee receipts	762	826
Interest and other income receipts	185	404
Operating and administrative expense payments	(23,402)	(19,843)
Interest payments	(14,504)	(13,192)

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Net cash provided by operating activities	12,677	9,594
Investing activities		
Acquisitions of apartment properties	(48,148)	(23,382)
Additions to apartment communities	(5,161)	(3,349)
Net (funding of) release from lender reserves for replacements	(457)	213
Casualty and other proceeds from apartment assets	918	-
Sale of restaurant properties	-	1,244
	-----	-----
Net cash used in investing activities	(52,848)	(25,275)
Financing activities		
Net proceeds from issuance of preferred stock	-	4,946
Net proceeds from issuance of common stock	31,462	770
Distributions to operating partnership minority unitholders	(1,847)	(1,845)
Payment of dividends to preferred shareholder	(1,000)	(537)
Payment of dividends to common shareholders	(7,551)	(5,859)
Proceeds from notes payable	111,906	25,986
Principal payments on notes payable	(91,941)	(7,856)
Payment of deferred financing costs	(906)	(244)
	-----	-----
Net cash provided by financing activities	40,123	15,361
	-----	-----
Net decrease in cash and cash equivalents	(47)	(320)
Cash and cash equivalents at beginning of year	564	884
	-----	-----
Cash and cash equivalents at end of year	\$ 517	\$ 564
	=====	=====
Reconciliation of net income to		
net cash provided by operating activities:		
Net income	\$ 1,039	\$ 107
Casualty gains, net of losses	(255)	-
Write-off of unamortized loan costs at debt refinance	85	-
Minority interest in operating partnership	16	(174)
Depreciation and amortization of intangible assets	12,035	10,361
Amortization of defeasance credit	(105)	(228)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(336)	(297)
Accounts payable and accrued expenses	119	(97)
Deferred revenue, prepaid rent and security deposits	79	(79)
	-----	-----
Net cash provided by operating activities	\$ 12,677	\$ 9,594
	=====	=====

See accompanying notes.

BNP RESIDENTIAL PROPERTIES, INC.  
Notes to Consolidated Financial Statements  
December 31, 2004

### Note 1. Summary of Significant Accounting Policies

#### Basis of presentation

The consolidated financial statements include the accounts of BNP Residential

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Properties, Inc. (the "company") and BNP Residential Properties Limited Partnership (the "operating partnership"). All significant intercompany balances and transactions have been eliminated in these consolidated financial statements.

We are a self-administered and self-managed real estate investment trust ("REIT") with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and operation of apartment communities. As of December 31, 2004, we managed 32 multi-family communities containing 7,912 units. Of these, we owned 25 apartment communities, containing 6,113 units. Third parties owned the remaining seven communities, containing 1,799 units, and we managed them on a contract basis. In addition to our apartment communities, at December 31, 2004, we owned 40 properties that we lease to a third party under a master lease on a triple-net lease basis. The lessee operates these properties as restaurants and, under the terms of the lease, is totally responsible for the operation and maintenance of the properties.

### UpREIT Structure

We are structured as an UpREIT, or umbrella partnership real estate investment trust. The company is the general partner and owns a majority interest in the operating partnership, through which we conduct all of our operations. At December 31, 2004, we owned 82% of the common ownership units of the operating partnership and 100% of the preferred ownership units of the operating partnership. We refer to the limited partners of the operating partnership as minority common unitholders or as the minority interest. Limited partners will generally be able to redeem their units for cash or, at our option as general partner, for shares of common stock of the company on a one-for-one basis. UpREITs are generally structured so that distributions of cash from the operating partnership are allocated between the REIT and the limited partners based on their respective unit ownership.

### Reclassifications

We have reclassified certain 2003 and 2002 amounts to conform to the current year presentation in the accompanying financial statements.

Beginning in 2004, we have presented operating activities in our consolidated statements of cash flows using the direct method, which provides cash flow amounts corresponding directly to lines in our statements of operations. (In previous years, we presented this information using the indirect method, which reconciles net income to net cash provided by operating activities.) We have also adjusted the 2003 and 2002 comparative amounts in our consolidated statements of cash flows to conform to the 2004 presentation by reclassifying the net cash flows related to funding of lender reserves for apartment property replacements from operating activities to investing activities. This reclassification has no impact on the net decrease in cash and cash equivalents for 2003 and 2002, only in the subtotals for net cash provided by operating activities and net cash used in investing activities, as follows:

47

	As Currently Presented	Adjustments	As P R
	(000's)	(000's)	
Year ended December 31, 2003			
Net cash provided by operating activities	\$ 9,594	\$ (213)	\$

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Net cash used in investing activities	(25,275)	213
Year ended December 31, 2002		
Net cash provided by operating activities	10,118	133
Net cash used in investing activities	(32,669)	(133)

We adopted Statement of Financial Accounting Standards ("FAS") No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections," effective January, 2003. FAS 145 generally requires gains and losses on extinguishments of debt to be classified as income or loss from continuing operations, rather than as extraordinary items as previously required under FAS 4. We reclassified the extraordinary item for loss on early extinguishment of debt in 2002 to conform to FAS 145 in our 2003 Annual Report. While adoption of FAS 145 had no impact on net income, it reduced income before extraordinary items and eliminated the extraordinary item as previously reported in our 2002 Annual Report, as follows:

	As Currently Presented	Adjustments	As P Rep
	(000's)	(000's)	(
Year ended December 31, 2002			
Revenues	\$38,164	\$ -	
Expenses	36,637	95	
<hr/>			
Income before minority interest and extraordinary item	1,527	(95)	
Minority interest in Operating Partnership	279	(22)	
<hr/>			
Income before extraordinary item	1,248	(73)	
Extraordinary item - loss on early extinguishment of debt	-	(73)	
<hr/>			
Net income	\$ 1,248	\$ -	
<hr/>			

### Segment Reporting

Operating segments are revenue-producing components of the company for which separate financial information is produced internally for our management. Under this definition, we operated, for all periods presented, as a single segment (apartment operations). Our apartment operating activities are located within a relatively small geographic area, and our chief operating decision maker does not receive or utilize financial information on the basis of geographic areas. We evaluate each community's performance individually; however, all of these communities are garden-style construction, operate in the mid-market price range, share similar economic characteristics, and provide similar services. We do not conduct any operating activities with regard to restaurant rental income; the triple-net lease arrangement for these properties requires the lessee to pay virtually all of the costs associated with these properties.

### Real Estate Investments

Real estate investments are stated at the lower of cost, less accumulated depreciation, or fair value. In general, for properties acquired prior to 2002, we compute depreciation using the straight-line method over composite estimated useful lives of the related assets, generally 40 years for buildings, 20 years for land improvements, 10 years for fixtures and equipment, and five years for

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floor coverings. For properties acquired after 2001, we performed detailed analyses of components of the real estate assets acquired. For

48

these properties, we assigned estimated useful lives as follows: base building structure, 43-60 years; land improvements, 7-20 years; short-lived building components, 5-20 years; and fixtures, equipment and floor coverings, 5-10 years.

We generally complete and capitalize acquisition improvements (expenditures that have been identified at the time the property is acquired, and which are intended to position the property consistent with our physical standards) within one to two years of acquisition of the related apartment property. We capitalize non-recurring expenditures for additions and betterments to buildings and land improvements. In addition, we generally capitalize recurring capital expenditures for exterior painting, roofing, and other major maintenance projects that substantially extend the useful life of existing assets. For financial reporting purposes, we depreciate these additions and replacements on a straight-line basis over estimated useful lives of 5-20 years. We capitalize all floor covering, appliance and HVAC replacements, and depreciate them using a straight-line, group method over estimated useful lives of 5-10 years. We expense ordinary repairs and maintenance costs at apartment communities. Costs of repairs and maintenance and capital improvements at restaurant properties are borne by the lessee.

We evaluate our real estate assets from time to time, or upon occurrence of significant adverse changes in operations, to assess whether any impairment indicators are present that affect the recovery of the recorded values. If we considered any real estate assets to be impaired, we would record a loss to reduce the carrying value of the property to its estimated fair value. At December 31, 2004 and 2003, none of our assets were considered impaired.

### Cash and Cash Equivalents

We consider all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

### Deferred Costs

We adopted FAS 142, Goodwill and Other Intangible Assets, effective January 1, 2002. Goodwill and intangible assets deemed to have indefinite lives are no longer amortized after December 31, 2001, but are subject to annual impairment tests in accordance with the Statement. We perform these annual tests as of October 1 of each year. Based on our tests through October 1, 2004, we determined that the intangible related to our 1994 acquisition of management operations, net of accumulated amortization, is not impaired. The historical cost of this asset is \$3.7 million, with accumulated amortization of \$2.6 million at December 31, 2004 and 2003.

We defer financing costs and amortize them using the straight-line method over the terms of the related notes. If we pay down or pay off notes prior to their maturity, we write off the related unamortized financing costs, reflected as a charge to operations. Accumulated amortization on these assets was \$1,210,000 at December 31, 2004, and \$870,000 at December 31, 2003.

As of December 31, 2004, we estimate future amortization of deferred financing costs will be as follows:

2005	\$380,000	2008	\$152,000
2006	359,000	2009	110,000
2007	308,000	Thereafter	236,000

We defer costs incurred in connection with proposed investing and financing

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transactions until the proposed transactions are consummated. We include such costs in prepaid expenses and other assets on our balance sheet. If we determine that a proposed transaction is not probable, we charge these costs to expense. At December 31, 2004, deferred costs related to proposed transactions totaled \$130,000.

### Fair Values of Financial Instruments

The carrying amount reported on the balance sheet for cash and cash equivalents approximates fair value. We estimate the fair value of fixed-rate notes and variable-rate notes payable using discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements.

49

The aggregate fair value of our deed of trust and other notes payable was \$296 million at December 31, 2004, and \$242 million at December 31, 2003.

### Use of Estimates

We are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes in order to prepare them in accordance with generally accepted accounting principles. Depreciation amounts included in these financial statements reflect our estimate of the life and related depreciation rates for rental properties. In addition, the carrying amount of the intangible asset related to acquisition of management operations reflects our assessment of the continuing value of this asset. Actual results could differ from these estimates.

### Revenue Recognition

We record rental and other revenue as it is earned, net of our provision for estimated uncollectible revenues. We amortize any cash concessions given at the inception of an apartment lease over the approximate life of the lease, which is generally one year or less. We record rental payments received prior to the first of a given month as prepaid rent. We hold tenant security deposits in trust in bank accounts separate from operating cash; related trust account balances are included in the balance sheet in other current assets.

In December 2000, we received an \$800,000 advance payment under a contract for use of our cable equipment at five apartment communities. This receipt, net of \$20,000 of related costs, was recorded as deferred revenue, and we are recognizing this rental revenue over the ten-year contract term beginning in 2001.

Deferred revenue and security deposits include the following amounts:

		December 31
		2004
		-----
		(000's)
Liability for tenant security deposits	\$	556
Insurance proceeds held pending reconstruction of apartment building		186
Prepaid apartment rents		494
Prepaid restaurant rents		91
Deferred cable revenue		460
		-----
	\$	1,787
		-----
		=====

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### Advertising Costs

We expense advertising costs as they are incurred. Advertising expense totaled \$530,000 in 2004, \$500,000 in 2003, and \$420,000 in 2002.

### Earnings Per Share

We calculate earnings per share based on the weighted average number of shares outstanding during each year.

### Comprehensive Income

Comprehensive income is defined as changes in shareholders' equity exclusive of transactions with owners (such as capital contributions and dividends). We did not have any comprehensive income items in 2004, 2003, or 2002, other than net income as reported.

### Stock-Based Compensation

The company has one employee Stock Option and Incentive Plan in place, which is described more fully in Note 4. As allowed by FAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," and FAS 123, "Accounting for Stock-Based Compensation," we account for this plan using the intrinsic value method under the recognition and measurement principles of Accounting Principles Board

50

Opinion 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. If we had applied the fair value recognition provisions of FAS 123 to stock-based employee compensation, the effect would have been to reduce net income as reported by \$200 in 2004, \$200 in 2003, and \$5,000 in 2002, with no impact on basic and diluted earnings per share amounts as reported.

### Recently Issued Accounting Standards

In December 2004 the Financial Accounting Standards Board issued Financial Accounting Statement No. 123 (revised 2004), Share Based Payment, ("FAS 123(R)") which is a revision of FAS 123, Accounting for Stock-Based Compensation. FAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FAS 95, Statement of Cash Flows. Generally, the approach in FAS 123(R) is similar to the approach described in FAS 123. However, FAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro forma disclosure is no longer an alternative. FAS 123(R) must be adopted no later than July 1, 2005, and we expect to adopt FAS 123(R) as of that date.

FAS 123(R) permits public companies to adopt its requirements using one of two methods: a "modified prospective" method, in which compensation cost is recognized beginning with the effective date based on the requirements of FAS 123(R) for all share-based payments granted after the effective date, and based on the requirements of FAS 123 for all awards granted to employees prior to the effective date that remain unvested on the effective date; or a "modified retrospective" method, which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under FAS 123 for purposes of pro forma disclosures. We plan to adopt FAS 123(R) using the "modified prospective" method described above.

As permitted by FAS 123 and discussed above under the caption "Stock Based Compensation," we currently account for share-based payments to employees using



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Opinion 25's intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. As of December 31, 2004, all outstanding grants of employee stock options are fully vested. The adoption of FAS 123(R)'s fair value method could have a significant impact on our results of operations, although it will have no impact on our overall financial position. The impact of adoption of FAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted FAS 123 (R) in prior periods, the impact of that standard would have approximated the impact of FAS 123 as described in the disclosure of pro forma amounts above.

### Note 2. Real Estate Investments

Real estate investments consist of the following:

	December 31	
	2004	2003
	----- (000's)	----- (000's)
Apartment properties		
Land	\$ 43,684	\$ 30,780
Buildings and improvements	344,395	267,901
Computer and support equipment	1,041	980
Less accumulated depreciation	(54,514)	(44,789)
	-----	-----
	334,605	254,872

51

	December 31	
	2004	2003
	----- (000's)	----- (000's)
Restaurant properties		
Land	10,445	10,445
Buildings and improvements	26,961	26,961
Less accumulated depreciation	(11,940)	(11,263)
	-----	-----
	25,466	26,142
	-----	-----
	\$360,071	\$281,014
	=====	=====

During the three years ended December 31, 2004, we acquired the apartment communities listed below. The results of operations of these apartment communities are included in the financial statements from the dates of acquisition.

#### 2004 acquisitions:

- o Bridges at Southpoint Apartments, acquired September 2004, for a total cost of \$10.2 million, paid in cash.
- o The Fairington Apartments, acquired August 2004, for a total cost of \$18.6 million, paid in cash.
- o Savannah Shores Apartments, acquired July 2004, for an initial purchase cost of \$12.5 million, including assumption of \$12.2 million in debt

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obligations and \$0.2 million net operating liabilities in excess of operating assets acquired, and issuance of 7,695 operating partnership units with an imputed value of \$0.1 million. The acquisition agreement provides for potential earn-out of additional purchase price of up to \$1.7 million within a three-year period upon attainment of certain performance standards; this would be funded through the issuance of operating partnership units with an imputed value of \$13.00 per unit to the contributors. Prior to this acquisition, we managed this community on a contract basis.

- o Carriage Club Apartments, acquired June 2004, for a total cost of \$19.7 million, paid in cash.
- o Bridges at Wind River Apartments, acquired May 2004, for a total cost of \$25.1 million, including assumption of \$24.6 million in debt obligations and issuance of 41,752 operating partnership units with an imputed value of \$0.5 million. We received \$0.2 million in net operating assets, consisting primarily of cash.

### 2003 acquisitions:

- o The Harrington Apartments, acquired August 2003, for a total cost of \$17.9 million, paid in cash.
- o The Place Apartments, acquired March 2003, for a total cost of \$5.6 million, paid in cash.

### 2002 acquisitions:

- o Marina Shores Waterfront Apartments, acquired September 2002, for a total cost of \$19.2 million, paid in cash.
- o Barrington Place Apartments and Brookford Place Apartments, acquired May 2002, for a total cost of \$32.2 million, including assumption of debt obligations totaling \$20.3 million, assumption and retirement of existing liabilities of the former owners totaling \$10.0 million, and issuance of 146,964 operating partnership units with an imputed value of \$1.8 million.

We present the following unaudited pro forma summary information as if we had owned the five properties acquired in 2004 and the two properties acquired in 2003 throughout all of both 2004 and 2003. These pro

52

forma amounts may not represent how we would have performed if these acquisitions had really occurred prior to 2003. In addition, they do not purport to project our results of operations for any future period.

	2004	2003
	(000's)	(000's)
Total revenue	\$ 55,880	\$ 54,592
Net income (loss)	303	(674)
Loss attributable to common shareholders	(697)	(1,334)
Basic earnings per share:		
Net income (loss)	\$ 0.04	\$ (0.11)
Loss attributable to common shareholders	(0.09)	(0.23)
Diluted earnings per share:		

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Net income (loss)	0.01	(0.14)
Loss income attributable to common shareholders	(0.09)	(0.23)

During 2003, we sold two restaurant properties to the lessee for their net carrying values, totaling \$1,244,000. We applied the proceeds from these sales to improvements at apartment communities and to reduce our line of credit secured by the restaurant properties.

### Note 3. Notes Payable

Notes payable consist of the following:

		December 31 2004
		(000's)
Lines of credit with a bank:		
Revolving line of credit for principal sum of up to \$30.0 million, due November 2007 (as modified July 2004), secured by a deed of trust and assignment of rents of Latitudes Apartments. Interest-only payments on the outstanding balance due monthly at a variable interest rate of 30-day LIBOR plus 1.65 % (4.11% at December 31, 2004).	\$	10,166
Principal sum of up to \$16.3 million through January 2005, then \$15.5 million, due January 2006 (as modified December 2003), secured by deeds of trust and assignments of rents of 40 restaurant properties. Interest-only payments on the outstanding balance due monthly at a variable interest rate of 30-day LIBOR plus 1.80% (4.26% at December 31, 2004).		16,316
Variable rate notes payable:		
Notes payable to a bank, secured by deeds of trust and assignments of rents of three apartment properties. Interest-only payments on the outstanding principal balances due monthly at interest rates of 30-day LIBOR plus 1.75% to 1.80% (4.21% to 4.26% at December 31, 2004) through mid-2007, then monthly installments of principal and interest estimated at \$165,000. Maturities in mid-2009, with estimated balloon payments totaling \$32.3 million.		33,900

		December 31 2004
		(000's)
Note payable to a bank in the principal amount of \$10.5 million (as modified December 2004), secured by a deed of trust and assignment of rents of Oak Hollow Apartments Phase		

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2. Payable in monthly installments of \$56,000 including principal and interest at 30-day LIBOR plus 1.85% (4.31% at December 31, 2004). Maturity in December 2007, with an estimated balloon payment of \$9.7 million. 10,453

Note payable to a bank, secured by a deed of trust and assignment of rents of The Harrington Apartments. Interest-only payments on the outstanding principal balance due monthly at a variable interest rate of 30-day LIBOR plus 1.75%; retired July 2004. -

Fixed rate notes payable:

Notes payable comprised of 11 loans (eight loans in 2003), payable in monthly installments totaling \$813,000 including principal and interest at rates ranging from 5.13% to 8.55%, with maturities in 2005 through 2014. Secured by deeds of trust and assignments of rents of 11 apartment communities. 131,225

Notes payable comprised of ten loans, interest rates ranging from 6.35% to 6.97%, payable in interest-only monthly installments totaling \$478,000, with maturities in 2007 and 2008. Secured by deeds of trust and assignments of rents of ten apartment communities. 84,366

Notes payable, comprised of 11 loans, payable in monthly installments totaling \$2,700 including principal and interest at 7.90% to 7.99%, secured by 11 vehicles; retired in 2004. -

-----  
\$286,425  
=====

During the three years ended December 31, 2004, we executed the following notes payable in conjunction with acquisitions of apartment communities:

- o \$8.2 million fixed-rate note payable, September 2004, secured by a deed of trust and assignment of rents of Bridges at Southpoint Apartments. This loan provides for interest at 4.93% (5.00% effective rate), payable in monthly installments of \$34,000 through October 2007, then principal and interest payable in monthly installments of \$44,000 through September 2014, with a balloon payment of \$7.3 million at maturity in October 2014. We paid and recorded deferred loan costs of \$61,000 related to this loan.
- o \$13.4 million variable-rate note payable, August 2004, secured by a deed of trust and assignment of rents of Fairington Apartments. This loan provides for interest at 30-day LIBOR plus 1.75%, payable monthly, with principal due August 2007, subject to an optional 24-month extension. If the loan is extended, principal payments of \$31,000 will be payable monthly beginning September 2007, with the remaining principal balance of \$12.7 million due August 2009. We paid and recorded deferred loan costs of \$76,000 related to this loan.

54

- o \$9.0 million variable-rate note payable, July 2004, secured by a deed of trust and assignment of rents of Savannah Shores Apartments. This loan provides for interest at 30-day LIBOR plus 1.8%, payable monthly, with principal due July 2007, subject to an optional 24-month extension. If the loan is extended, principal payments of \$16,000 will be payable monthly

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beginning August 2007, with the remaining principal balance of \$8.6 million due July 2009. We applied proceeds of this loan, along with additional funds drawn on our revolving line of credit, to retire the existing \$12.2 million loan obligation related to Savannah Shores. We paid and recorded deferred loan costs of \$56,000 related to this loan.

- o \$14.9 million fixed-rate note payable, June 2004, secured by a deed of trust and assignment of rents of Carriage Club Apartments. This loan provides for interest at 5.15% (5.22% effective rate), payable in monthly installments of \$65,000 through July 2005, then principal and interest payable in monthly installments of \$81,000 through June 2009, with a balloon payment of \$14.0 million at maturity in July 2009. We paid and recorded deferred loan costs of \$90,000 related to this loan.
- o \$19.7 million fixed-rate note payable, May 2004, secured by a deed of trust and assignment of rents of Bridges at Wind River Apartments. This loan provides for interest at 5.57% (5.65% effective rate) and monthly payments of principal and interest of \$113,000, with a balloon payment of \$16.5 million at maturity in June 2014, subject to an optional extension for one year with interest at a variable rate. We applied the proceeds of this note, along with additional funds drawn on our revolving line of credit, to retire the existing \$24.6 million loan obligations related to Bridges at Wind River. We paid and recorded deferred loan costs of \$157,000 related to this loan.
- o \$14.4 million variable-rate note payable, August 2003, secured by a deed of trust and assignment of rents of Harrington Apartments. This loan provided for interest at 30-day LIBOR plus 1.75%, payable monthly. In conjunction with this transaction, we paid and recorded deferred loan costs of \$118,000. We subsequently retired this loan in July 2004 (see refinancing transactions below).
- o \$4.6 million fixed-rate note payable, March 2003, secured by a deed of trust and assignment of rents of The Place Apartments. This loan provides for interest at 5.06% (5.13% effective rate) and monthly payments including principal and interest of \$25,000, with a balloon payment of \$3.8 million at maturity in March 2013. We paid and recorded deferred loan costs of \$63,000 related to this loan.
- o \$15.9 million fixed-rate note payable, September 2002, secured by a deed of trust and assignment of rents of Marina Shores Waterfront Apartments. This loan provides for interest at 5.85% (5.93% effective rate) and monthly payments including principal and interest of \$94,000, with a balloon payment of \$13.5 million in October 2012. We paid and recorded deferred loan costs of \$149,000 related to this loan.
- o \$20.3 million fixed-rate note payable, assumed May 2002, secured by a deed of trust and assignment of rents of Barrington Place Apartments. This loan provides for interest at 6.91% (7.01% effective rate) and monthly payments including principal and interest of \$136,000, with a balloon payment of \$18.0 million in November 2010. We paid and recorded deferred loan costs of \$161,000 related to this loan assumption.
- o \$4.9 million fixed-rate note payable, June 2002, secured by a deed of trust and assignment of rents of Brookford Place Apartments. This loan provides for interest at 6.97% (7.07% effective rate) and monthly payments including principal and interest of \$32,000, with a balloon payment of \$4.2 million in June 2012. We applied the proceeds of this loan to retire existing loan obligations of the former owners of Barrington Place and Brookford Place Apartments. We paid and recorded deferred loan costs of \$65,000 related to this loan.

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During this three-year period, we executed the following notes payable in refinancing transactions:

55

- o \$15.0 million fixed-rate note payable, July 2004, secured by a deed of trust and assignment of rents of Harrington Apartments. This loan provides for interest at 5.15% (5.22% effective rate), payable in monthly installments of \$65,000 through August 2005, then principal and interest payable in monthly installments of \$82,000, with a balloon payment of \$14.1 million at maturity in August 2009. We applied the proceeds to retire a \$14.4 million variable-rate note payable. We paid and recorded deferred loan costs of \$92,000 related to this loan. In addition, we wrote off unamortized loan costs of \$85,000 related to the debt retired.
- o \$11.5 million variable-rate note payable, April 2004, secured by a deed of trust and assignment of rents of Chason Ridge Apartments. This loan provides for interest at 30-day LIBOR plus 1.75%, payable monthly, and principal due May 2007, subject to an optional 24-month extension. If the loan is extended, principal payments of \$27,000 will be payable monthly beginning June 2007, with the remaining principal balance of \$10.9 million due April 2009. We applied \$9.4 million of these proceeds to retire an existing 8.5% deed of trust note related to Chason Ridge. We paid and recorded deferred loan costs of \$98,000 related to this loan.
- o \$7.9 million fixed-rate note payable, February 2002, secured by a deed of trust and assignment of rents of Oakbrook Apartments. This loan provides for interest at 6.99% (7.09% effective rate) and monthly payments including principal and interest of \$52,000, with a balloon payment of \$6.9 million in February 2012. We paid and recorded deferred loan costs of \$94,000 related to this loan.

We applied the proceeds of the Oakbrook note to reduce our Latitudes line of credit. In January 2002, we applied a \$6.0 million draw on this line of credit to retire a note payable in the amount of \$6.1 million related to Oakbrook. We wrote off unamortized loan costs of \$95,000 related to the debt retired.

In June 2004, we modified our revolving line of credit with a bank secured by Latitudes Apartments to increase our maximum loan amount to \$30.0 million, extend the term of the loan through November 2007, and reduce the variable interest rate on outstanding amounts to 30-day LIBOR plus 1.65% (previously 1.75%). In conjunction with this modification, we paid and recorded deferred loan costs of \$184,000. We also paid and recorded \$32,000 in deferred loan costs related to this loan in conjunction with a previous modification in January 2003. As of December 31, 2004, \$19.8 million was available for draw under our Latitudes line of credit.

In December 2003, we modified and extended our line of credit with a bank secured by our restaurant properties to extend the maturity date of this loan to January 2006. In conjunction with this modification, we paid and recorded \$41,000 in deferred loan costs in January 2004.

Interest payments totaled \$14.5 million in 2004, \$13.2 million in 2003, and \$11.5 million in 2002.

The loan agreements related to the lines of credit include covenants and restrictions relating to, among other things, specified levels of debt service coverage, leverage and net worth. To date, we have met all applicable requirements.

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As of December 31, 2004, we estimate future scheduled principal payments will be as follows:

2005	\$	7,900,000	2008	\$	39,200,000
2006		17,300,000	2009		62,800,000
2007		70,000,000	Thereafter		89,200,000

56

### Note 4. Shareholders' Equity

#### Authorized Capital Stock

Our bylaws and certificate of incorporation allow the Board of Directors to authorize the issuance of up to 100 million shares of common stock and 10 million shares of preferred stock, issuable in series whose characteristics would be set by the Board of Directors.

We have issued 909,090 shares of the Company's Series B Cumulative Convertible Preferred stock to a single accredited investor, as follows:

Date	Number of Shares	Net Proceeds
September 2003	454,545	\$4,946,091
September 2002	227,272	2,391,905
December 2001	227,273	2,274,594

These preferred shares have a purchase price and liquidation preference of \$11.00 per share. The agreement for these shares provides for an initial dividend yield of 10% through December 2009, then 12% for two years, and thereafter the greater of 14% or 900 basis points over the 5-year Treasury rate. The investor has the right to convert each Series B share into one share of the company's common stock beginning in December 2004 or in certain circumstances, such as a change of control or if the company calls the Series B stock for redemption. The holders of preferred shares are generally not entitled to vote on matters submitted to shareholders. Dividends on preferred shares are subject to declaration by the Board of Directors.

Approximately 4.2 million authorized shares of common stock are reserved for future issuance under the company's Stock Option and Incentive Plan, Dividend Reinvestment and Stock Purchase Plan, and for conversion of Series B Preferred shares and Operating Partnership units.

#### Dividend Reinvestment and Stock Purchase Plan

Our Dividend Reinvestment and Stock Purchase Plan ("DRIP Plan") allows the company, at its option, to issue shares directly to Plan participants. We issued 65,697 shares in 2004, 72,890 shares in 2003, and 77,607 shares in 2002 through the Plan.

#### Redemption of Operating Partnership Units

We redeemed operating partnership units from former minority unitholders by issuing shares of the company's common stock on a one-for-one basis in the following amounts: 24,618 shares in 2004, 3,166 shares in 2003, and 8,597 shares in 2002.

#### Earnings per Common Share

We calculated basic and diluted earnings per share using the following amounts:

2004

2003

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	(000's)	(000's)	
Numerators:			
Numerator for basic earnings per share -			
Net income	\$ 1,039	\$ 107	\$
Cumulative preferred dividend	(1,000)	(661)	
Income (loss) available to common shareholders	\$ 39	\$ (553)	\$
Numerator for diluted earnings per share (1) -			
Income (loss) before minority interest	\$ 1,055	\$ (66)	\$
Cumulative preferred dividend	(1,000)	(661)	
Income (loss) available to common shareholders	\$ 55	\$ (727)	\$

57

	2004	2003
	(000's)	(000's)
Denominators:		
Denominator for basic earnings per share -		
Weighted average common shares outstanding	7,617	5,868
Effect of dilutive securities:		
Convertible operating partnership units	1,856	1,843
Stock options (2)	31	6
Dilutive potential common stock	1,887	1,849
Denominator for diluted earnings per share -		
Adjusted weighted average common shares and assumed conversions	9,504	7,717

(1) Assumes conversion of operating partnership units to common shares. Preferred B Shares are not dilutive.

(2) We excluded options to purchase 140,000 shares of common stock at \$12.50, 110,000 shares at \$12.25, 120,000 shares at \$13.125, and 60,000 shares at \$11.25 from the calculation of diluted earnings per share for 2003 and 2002. The exercise price of these options was greater than the average market price of the common shares for these periods, and the effect would be anti-dilutive.

Stock Option and Incentive Plan

We have reserved 470,000 shares of the company's common stock for issuance under our employee Stock Option and Incentive Plan. Options have been granted to employees at prices equal to the fair market value of the stock on the dates the options were granted or repriced. We calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. Options are generally exercisable in four annual installments beginning one year after the date of grant, and expire ten years after the date of grant.

The following table summarizes information about stock options outstanding at December 31, 2004.



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	Weighted Average Remaining Contractual Life (Years)	Number of Options Outstanding	Number of Options Exercisable
Exercise price \$9.25 per share	5.15	37,500	37,500
Exercise price \$11.25 per share	3.83	60,000	60,000
Exercise price \$13.125 per share	3.50	120,000	120,000
Exercise price \$12.25 per share	2.33	110,000	110,000
All options outstanding	3.36	327,500	327,500

There were no grants of options during 2004, 2003 or 2002. As of December 31, 2004, all outstanding options were fully vested. Changes in outstanding stock options were as follows:

	2004		2003		2002
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares
Beginning balance	477,500	\$12.12	477,500	\$12.12	477,500
Granted	-	-	-	-	-

58

	2004		2003		2002
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares
Exercised	(99,844)	12.50	-	-	-
Repurchased	-	-	-	-	-
Forfeited	(50,156)	11.85	-	-	-
Ending balance	327,500	\$12.04	477,500	\$12.12	477,500

Exercisable at the end of

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the year	327,500	\$12.04	465,625	\$12.19	453,750
	=====	=====	=====	=====	=====

During 2004, we issued 99,844 shares of our common stock, net of 40,071 shares exchanged, upon exercise of options by three management employees, for cash proceeds of \$700,000.

### Note 5. Rental Operations

#### Apartment Properties

We lease our residential apartments under operating leases with monthly payments due in advance. Terms of the apartment leases are generally one year or less, with none longer than two years.

#### Restaurant Properties - Master Lease Agreement

The lease agreement with Boddie-Noell Enterprises ("Enterprises") has a primary term expiring in December 2007, but grants Enterprises three five-year renewal options. Enterprises pays annual rent equal to the greater of the specified minimum rent or 9.875% of food sales from the restaurants. Under certain conditions as defined in the agreement, both Enterprises and the company have the right to substitute another restaurant property for a property covered by the lease. Assuming renewal of the lease, after December 31, 2007, Enterprises has the right to terminate the lease on up to five restaurant properties per year by offering to purchase them under specified terms.

In addition, we entered into a separate agreement with Enterprises that, after December 31, 1997, allowed Enterprises to purchase, under specified terms, up to seven restaurant properties deemed non-economic. During 2003 we sold two restaurants to Enterprises, the lessee, under this agreement. We sold five restaurants in previous years to Enterprises under this clause.

The lease requires Enterprises to pay monthly installments of minimum rent and quarterly payments calculated based on the percentage rent, subject to an annual calculation of the greater of minimum or percentage rent. We received the minimum rent in 2004, 2003, and 2002. We expect annual minimum rent will be \$3.8 million in years 2005 through 2007.

#### Casualty Gains

During 2004, we recorded casualty gains totaling \$269,000 related to fires that resulted in substantial damage to one building each at two of our apartment communities. We received insurance proceeds totaling \$895,000, against which we identified and wrote off \$626,000 net carrying value of assets destroyed.

We are fully insured for these losses, including rent continuation insurance covering 100% of lost rental income. Through December 31, 2004, we recorded \$131,000 in recovery of lost rents, included in apartment rental income in our statement of operations.

### Note 6. Income Taxes

We operate as, and elect to be taxed as, a REIT under the Internal Revenue Code. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our adjusted taxable income to our common shareholders. We intend to adhere to these requirements and maintain the company's REIT status. As a REIT, we generally will not be subject to corporate level federal or state income tax on taxable income we distribute currently to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal and state

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income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on income and property, and to federal income and excise taxes on undistributed taxable income. In addition, taxable income from non-REIT activities managed through taxable REIT subsidiaries would be subject to federal, state and local income taxes.

The following table reconciles our income as reflected in our financial statements to REIT taxable income. Taxable income differs from income for financial statement purposes, primarily due to differences for tax purposes in the estimated useful lives and methods used to compute depreciation and the carrying value (basis) of the investment in properties. For federal and state income tax purposes, we will report real estate investments with a total cost basis of \$390 million and accumulated depreciation of \$88 million as of December 31, 2004.

	2004 Estimate	2003 Actual
	-----	-----
	(000's)	(000's)
Income (loss) subject to income tax - Operating Partnership	\$ 1,050	\$ (66)
Reconciling items:		
Add differences in deductions for depreciation and disposals of real estate assets	400	129
Less one-time deduction allocated to Wind River Apartments contributor	(1,750)	-
Other book/tax differences, net	60	(163)
	-----	-----
Adjusted taxable (loss) income - Operating Partnership	(240)	(100)
Minority share of taxable income	1,650	124
	-----	-----
Taxable income subject to dividend requirement	\$ 1,410	\$ 24
	=====	=====
Minimum dividend required (90% of taxable income)	\$ 1,270	\$ 21
	=====	=====

The actual tax deduction for dividends that we take, and the taxability of dividends to shareholders, is based on a measurement of "earnings and profits" as defined by the Internal Revenue Code. Earnings and profits differ from regular taxable income, primarily due to further differences in the estimated useful lives and methods used to compute depreciation. The following table reconciles the dividends paid deduction taken by the company (the portion of dividends paid that are taxable as ordinary income to shareholders) on its tax returns to cash dividends paid.

	2004 Estimate	2003 Actual	2002 Actual
	-----	-----	-----

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	(000's)	(000's)	(000's)
Dividends paid deduction for			
Preferred dividends paid	\$ 1,000	\$ 537	\$ 200
Common dividends paid	920	-	1,898
	-----	-----	-----
	1,920	537	2,098
Portion of common dividends designated return of capital	6,630	5,858	5,265
	-----	-----	-----
Total dividends paid	\$ 8,550	\$ 6,395	\$ 7,363
	=====	=====	=====

We paid dividend distributions totaling \$1.00 per share to common shareholders in 2004 and 2003, and \$1.24 per share to common shareholders in 2002. In early January following each year end, we must make an estimate of earnings and profits, and publish an allocation between ordinary dividend income and non-taxable return of capital to common shareholders. The allocation between ordinary dividend income and non-taxable return of capital to common shareholders was as follows:

	2004		2003		2002
	\$	%	\$	%	\$
Ordinary income	\$0.12	12.0%	\$0.17	17.0%	\$0.24
Return of capital	0.88	88.0%	0.83	83.0%	1.00
	-----	-----	-----	-----	-----
	\$1.00	100.0%	\$1.00	100.0%	\$1.24
	=====	=====	=====	=====	=====

### Note 7. Related Party Transactions

In July 2004, we issued 7,695 operating partnership units to acquire Savannah Shores Apartments from a group of investors to whom we refer as the "Chrysson Parties." Previously, between 1997 and 2002, we issued 1,496,918 operating partnership units to acquire eight apartment communities from this group. Certain current directors of the company were shareholders and officers in the Chrysson Parties.

In February 1997, we signed a participating loan agreement with The Villages of Chapel Hill Limited Partnership, the owner of an apartment community that we manage. We made a loan to The Villages of \$2.5 million to fund a substantial rehabilitation of its apartment community and guaranteed a \$1.5 million bank loan. In exchange, we receive minimum interest on our loan at the greater of 12.5% or the 30-day LIBOR rate plus 6.125% and an annual loan guarantee fee. We also receive 25% participation in increased rental revenue and 25% participation in the increase in value of the property. The Villages subsequently reduced the outstanding principal balance of its note payable to us to \$100,000, which has been outstanding since February 2000. In July 2001, we modified the participating loan agreement to establish a \$950,000 "fixed portion" of our participation in the increase in value of the property and extend the period for our 25% participation in increased rental revenue and increase in value of the property to the earlier of July 2011 or sale or refinance of the property. Required payment of the fixed portion is subject to cash flow from The Villages property, as defined in the agreement. Interest on the outstanding fixed portion accrues at the greater of a prime rate or 8%, payable monthly.

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We received interest and participation income of \$59,000 in 2004, \$59,000 in 2003, and \$60,000 in 2002. In addition, we received guarantee fees of \$12,000 in 2004, 2003 and 2002. We received \$383,000 of the fixed portion during 2002 and 2001. Because the collectibility of the remaining fixed portion is subject to cash flow and therefore uncertain, we have provided a reserve for collection of this receivable. At December 31, 2004 and 2003, we have reflected the principal portion of notes receivable from The Villages of Chapel Hill Limited Partnership as follows, included in our balance sheets in other assets.

61

Advances receivable	\$ 100,000
Fixed portion of shared appreciation	567,434
Less reserve for collection of fixed portion	(567,434)
	-----
	\$ 100,000
	=====

In 1996 through 1999, we made loans totaling \$180,000 to certain officers of the company. These loans are included in our balance sheets in other assets.

### Note 8. Profit Sharing Plan

The employees of the company are participants in a profit sharing plan pursuant to Section 401 of the Internal Revenue Code. We make limited matching contributions based on the level of employee participation as defined in the plan. We made contributions to the plan totaling \$82,000 in 2004, \$57,000 in 2003, and \$59,000 in 2002.

### Note 9. Commitments and Contingencies

In December 2004, we entered into agreements to acquire a portfolio of four apartment communities containing a total of 1,086 apartment units. The aggregate purchase price will be \$51.8 million and consists of the assumption or refinancing of up to \$43.2 million of debt on the properties, with the remaining \$8.6 million to be paid in operating partnership units with an imputed value of \$13.50 per unit. We expect to complete these acquisitions by the end of March 2005. We currently manage these apartment communities on a contract basis.

Through December 2004, we spent \$385,000, with \$705,000 remaining, under a contract for reconstruction of an apartment building at Latitudes Apartments that had been significantly damaged by fire. We expect to complete this reconstruction project by the end of April 2005.

We currently lease 7,800 square feet of office space in downtown Charlotte, North Carolina, for our corporate and administrative offices. Rent expense totaled \$163,000 in 2004, \$163,000 in 2003, and \$169,000 in 2002. The lease provides for monthly rental of \$15,000 and expires June 2008.

We have agreements with four of our executive officers that provide for cash compensation and other benefits if we terminate them without cause or if a change in control of the company occurs.

The company is a party to a variety of legal proceedings arising in the ordinary course of its business. We believe that such matters will not have a material effect on the financial position or results of operations of the company.

### Note 10. Quarterly Financial Data (Unaudited)

We present below selected financial data (unaudited) for the years ended December 31, 2004 and 2003.

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	Revenues	Total	Net Income (Loss)		Income (Available to Common Shareholders) Per Share,
			Per Share		
			Basic	Diluted	
	(000's)	(000's)			
2004					
First quarter	\$ 11,231	\$ 373	\$ 0.06	\$ 0.05	\$ 0.
Second quarter	11,858	217	0.03	0.02	(0.

62

	Revenues	Total	Net Income (Loss)		Income (Available to Common Shareholders) Per Share,
			Per Share		
			Basic	Diluted	
	(000's)	(000's)			
Third quarter	13,726	299	0.03	0.03	0.
Fourth quarter	14,050	150	0.02	0.01	(0.
	\$ 50,865	\$ 1,039	\$ 0.14	\$ 0.11	\$ 0.
2003					
First quarter	\$ 10,243	\$ 146	\$ 0.02	\$ 0.02	\$ 0.
Second quarter	10,180	(393)	(0.06)	(0.07)	(0.
Third quarter	10,876	137	0.02	0.01	(0.
Fourth quarter	11,361	217	0.04	0.03	0.
	\$ 42,660	\$ 107	\$ 0.02	\$ (0.01)	\$ (0.

Note 11. Subsequent Events

The Board of Directors declared a regular quarterly dividend of \$0.25 per common share on January 20, 2005, payable on February 15, 2005, to shareholders of record on February 1, 2005. The Board of Directors also authorized the payment of dividends totaling \$250,000 to the Series B Preferred shareholder.

Effective January 26, 2005, we acquired Boddie Investment Company ("BIC") in exchange for 508,578 shares of our common stock valued at \$8.2 million. As part of the acquisition, BIC surrendered, and we cancelled, 72,399 shares of our common stock valued at \$1.2 million. As a result of this acquisition, we have assumed the role of general partner and acquired certain economic interests in

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the following limited partnerships: Marina Shores Associates One Limited Partnership (50% economic interest), The Villages of Chapel Hill Limited Partnership (1% economic interest) and The Villages of Chapel Hill - Phase 5, Limited Partnership (1% economic interest). Prior to this acquisition, we managed, on a fee basis, the properties owned by these partnerships. We will continue to manage these properties following our acquisition of BIC. We have not completed our evaluation of this acquisition as to whether consolidation of these partnerships will be required.

63

### Report of Independent Auditors

Board of Directors and Stockholders  
BNP Residential Properties, Inc.

We have audited the accompanying statement of revenue and certain operating expenses of Oakwood Raleigh Apartments for the year ended December 31, 2003. This statement is the responsibility of Oakwood Raleigh Apartments' management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Apartments' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenue and certain operating expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission, as described in Note 1, and is not intended to be a complete presentation of Oakwood Raleigh Apartments' revenue and expenses.

In our opinion, the statement of revenue and certain operating expenses referred to above presents fairly, in all material respects, the revenues and certain operating expenses described in Note 1 of Oakwood Raleigh Apartments for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Greenville, South Carolina  
October 23, 2004

Oakwood Raleigh Apartments  
 Statements of Revenue and Certain Operating Expenses  
 For the year ended December 31, 2003 and  
 For the unaudited period January 1 through May 11, 2004

	Year ended December 31, 2003
	-----
Rental income	\$3,195,385
Certain operating expenses:	
Property operations expense	1,076,443
Property insurance	141,580
Property taxes	377,517
	-----
	1,595,540
	-----
Revenue in excess of certain operating expenses	\$1,599,845
	=====

See accompanying notes.

Oakwood Raleigh Apartments  
 Notes to Statements of Revenue and Certain Operating Expenses  
 For the year ended December 31, 2003, and  
 For the unaudited period January 1 through May 11, 2004

1. Summary of Significant Accounting Policies

Basis of presentation

These statements of revenue and certain operating expenses reflect the operations of an apartment property located in Durham, North Carolina. Oakwood Raleigh Apartments is not a legal entity; it is an apartment property acquired by BNP Residential Properties, Inc. in May, 2004, and subsequently renamed Bridges at Wind River Apartments. The 346-unit apartment property was built in 1998 and 1999, with construction of these units substantially completed in January 2000.

We prepared these statements in accordance with Rule 3-14 of Regulation S-X. Accordingly, these statements exclude items such as interest, depreciation and amortization, and general and administrative expenses that are not comparable to the anticipated future on-site operations of the apartment property.



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### Revenue recognition

Oakwood Raleigh Apartments leased its residential apartments under operating leases with monthly payments due in advance. The majority of the apartment leases were for terms of one year or less. Rental and other revenues were recorded as earned.

### Advertising expense

Oakwood Raleigh Apartments charged advertising costs to property operations expense as incurred. Advertising expense included in property operations expense totaled approximately \$82,000 for the year ended December 31, 2003, and approximately \$44,000 for the interim period in 2004.

### Use of estimates

We are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes in order to prepare them in accordance with generally accepted accounting principles. Actual results could differ from those amounts.

### Interim financial data

The unaudited financial statements for the period January 1 through May 11, 2004, include all adjustments that are, in management's opinion, necessary for a fair presentation of the revenues and certain operating expenses for this interim period. Operating results for the period January 1 through May 11, 2004, are not necessarily indicative of the results to be expected for the entire year ending December 31, 2004.

## 2. Environmental Matters

Bridges at Wind River Apartments, formerly named Oakwood Raleigh Apartments, has been subjected to Phase I environmental reviews. These reviews did not reveal, nor is management aware of, any environmental liability that management believes would have a material adverse effect on the accompanying financial statements.

66

## Report of Independent Auditors

Board of Directors and Stockholders  
BNP Residential Properties, Inc.

We have audited the accompanying statement of revenue and certain operating expenses of Carriage Club Apartments for the year ended December 31, 2003. This statement is the responsibility of Carriage Club Apartments' management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are

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appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Apartments' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenue and certain operating expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission, as described in Note 1, and is not intended to be a complete presentation of Carriage Club Apartments' revenue and expenses.

In our opinion, the statement of revenue and certain operating expenses referred to above presents fairly, in all material respects, the revenues and certain operating expenses described in Note 1 of Carriage Club Apartments for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Greenville, South Carolina  
October 23, 2004

67

Carriage Club Apartments  
Statements of Revenue and Certain Operating Expenses  
For the year ended December 31, 2003, and  
For the unaudited period January 1 through June 28, 2004

	Year ended December 31, 2003	January 1 through June 28, 2004
		(Unaudited)
Rental income	\$2,087,597	\$1,058,213
Certain operating expenses:		
Property operations expense	555,708	282,555
Property insurance	32,594	17,871
Property taxes	131,771	64,806
	720,073	365,232
Revenue in excess of certain operating expenses	\$1,367,524	\$ 692,981

See accompanying notes.

Carriage Club Apartments  
Notes to Statements of Revenue and Certain Operating Expenses  
For the year ended December 31, 2003, and  
For the unaudited period January 1 through June 28, 2004

1. Summary of Significant Accounting Policies

Basis of presentation

These statements of revenue and certain operating expenses reflect the operations of an apartment property located in Mooresville, North Carolina. Carriage Club Apartments is not a legal entity; it is an apartment property acquired by BNP Residential Properties, Inc. in June 2004. The 268-unit apartment property was built in 2000.

We prepared these statements in accordance with Rule 3-14 of Regulation S-X. Accordingly, these statements exclude items such as interest, depreciation and amortization, and general and administrative expenses that are not comparable to the anticipated future on-site operations of the apartment property.

Revenue recognition

Carriage Club Apartments leased its residential apartments under operating leases with monthly payments due in advance. The majority of the apartment leases were for terms of one year or less. Rental and other revenues were recorded as earned.

Advertising expense

Carriage Club Apartments charged advertising costs to property operations expense as incurred. Advertising expense included in property operations expense totaled approximately \$39,000 for the year ended December 31, 2003, and approximately \$19,000 for the interim period in 2004.

Use of estimates

We are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes in order to prepare them in accordance with generally accepted accounting principles. Actual results could differ from those amounts.

Interim financial data

The unaudited financial statements for the period January 1 through June 28, 2004, include all adjustments that are, in management's opinion, necessary for a fair presentation of the revenues and certain operating expenses for this interim period. Operating results for the period January 1 through June 28, 2004, are not necessarily indicative of the results to be expected for the entire year ending December 31, 2004.

2. Environmental matters

Carriage Club Apartments has been subjected to Phase I environmental reviews. These reviews did not reveal, nor is management aware of, any environmental liability that management believes would have a material adverse effect on the accompanying financial statements.

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## Report of Independent Auditors

Board of Directors and Stockholders  
BNP Residential Properties, Inc.

We have audited the accompanying statements of revenue and certain operating expenses of Savannah Shores Apartments for the years ended December 31, 2003 and 2002, and for the six-month period ended June 30, 2004. These statements are the responsibility of Savannah Shores Apartments' management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Apartments' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying statements of revenue and certain operating expenses were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission, as described in Note 1, and are not intended to be a complete presentation of Savannah Shores Apartments' revenues and expenses.

In our opinion, the statements of revenue and certain operating expenses referred to above presents fairly, in all material respects, the revenue and certain operating expenses described in Note 1 for Savannah Shores Apartments for the years ended December 31, 2003 and 2002 and for the six-month period ended June 30, 2004 in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young, LLP

Greenville, South Carolina  
February 23, 2005

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	Year ended December 31, 2002	Year ended December 31, 2003
	-----	-----
Rental income	\$1,728,847	\$1,637,696
Certain operating expenses:		
Property operations expense	638,702	503,495
Property insurance	125,658	183,566
Property taxes	147,739	152,127
	-----	-----
	912,099	839,188
	-----	-----
Revenue in excess of certain operating expenses	\$ 816,748	\$ 798,508
	=====	=====

See accompanying notes.

71

Savannah Shores Apartments  
Notes to Statements of Revenue and Certain Operating Expenses  
Years ended December 31, 2002 and 2003, and  
Six months ended June 30, 2004

### 1. Summary of Significant Accounting Policies

#### Basis of presentation

These statements of revenue and certain operating expenses reflect the operations of an apartment property located in Myrtle Beach, South Carolina. Savannah Shores Apartments is not a legal entity; it is an apartment property acquired by BNP Residential Properties, Inc. in July 2004. The 198-unit apartment property was built in 1998.

We prepared these statements in accordance with Rule 3-14 of Regulation S-X. Accordingly, these statements exclude items such as interest, depreciation and amortization, and general and administrative expenses that are not comparable to the anticipated future on-site operations of the apartment property.

#### Revenue recognition

Savannah Shores Apartments leases its residential apartments under operating leases with monthly payments due in advance. The majority of the apartment leases are for terms of one year or less. Rental and other revenues are recorded as earned.

#### Advertising expense

Savannah Shores Apartments charged advertising costs to property operations expense as incurred. Advertising expense included in property operations expense totaled approximately \$29,000 in 2002, \$23,000 in 2003, and \$9,000 during the six months ended June 30, 2004.

#### Use of estimates

We are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes in order to prepare

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them in accordance with generally accepted accounting principles. Actual results could differ from those amounts.

### 2. Environmental matters

Savannah Shores Apartments has been subjected to Phase I environmental reviews. These reviews did not reveal, nor is management aware of, any environmental liability that management believes would have a material adverse effect on the accompanying financial statements.

72

### Report of Independent Auditors

Board of Directors and Stockholders  
BNP Residential Properties, Inc.

We have audited the accompanying statement of revenue and certain operating expenses of Fairington Apartments for the year ended December 31, 2003. This statement is the responsibility of Fairington Apartments' management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Apartments' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenue and certain operating expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission, as described in Note 1, and is not intended to be a complete presentation of Fairington Apartments' revenue and expenses.

In our opinion, the statement of revenue and certain operating expenses referred to above presents fairly, in all material respects, the revenues and certain operating expenses described in Note 1 of Fairington Apartments for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Greenville, South Carolina  
December 10, 2004

Fairington Apartments  
 Statements of Revenue and Certain Operating Expenses  
 For the year ended December 31, 2003, and  
 For the unaudited period January 1 through August 4, 2004

	Year ended December 31, 2003	January 1 through August 4, 2004
	-----	----- (Unaudited)
Rental income	\$1,917,104	\$1,091,523
Certain operating expenses:		
Property operations expense	676,204	429,099
Property insurance	62,233	42,125
Property taxes	209,488	120,848
	-----	-----
	947,925	592,072
	-----	-----
Revenue in excess of certain operating expenses	\$ 969,179	\$ 499,451
	=====	=====

See accompanying notes.

Fairington Apartments  
 Notes to Statements of Revenue and Certain Operating Expenses  
 For the year ended December 31, 2003, and  
 For the unaudited period January 1 through August 4, 2004

1. Summary of Significant Accounting Policies

Basis of presentation

These statements of revenue and certain operating expenses reflect the operations of an apartment property located in Charlotte, North Carolina. Fairington Apartments is not a legal entity; it is an apartment property acquired by BNP Residential Properties, Inc. in August 2004. The 250-unit apartment property was built in 1981.

We prepared these statements in accordance with Rule 3-14 of Regulation S-X. Accordingly, these statements exclude items such as interest, depreciation and amortization, and general and administrative expenses that are not comparable to the anticipated future on-site operations of the apartment property.

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### Revenue recognition

Fairington Apartments leased its residential apartments under operating leases with monthly payments due in advance. The majority of the apartment leases were for terms of one year or less. Rental and other revenues were recorded as earned.

### Advertising expense

Fairington Apartments charged advertising costs to property operations expense as incurred. Advertising expense included in property operations expense totaled approximately \$27,000 for the year ended December 31, 2003, and approximately \$14,000 for the interim period in 2004.

### Use of estimates

We are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes in order to prepare them in accordance with generally accepted accounting principles. Actual results could differ from those amounts.

### Interim financial data

The unaudited financial statements for the period January 1 through August 4, 2004, include all adjustments that are, in management's opinion, necessary for a fair presentation of the revenues and certain operating expenses for this interim period. Operating results for the period January 1 through August 4, 2004, are not necessarily indicative of the results to be expected for the entire year ending December 31, 2004.

## 2. Environmental matters

Fairington Apartments has been subjected to Phase I environmental reviews. These reviews did not reveal, nor is management aware of, any environmental liability that management believes would have a material adverse effect on the accompanying financial statements.

75

### Sterling Park Apartments

Statements of Revenue and Certain Operating Expenses (Unaudited)

	Year ended December 31, 2003	
	-----	-----
Rental income	\$1,446,958	
Certain operating expenses:		
Property operations expense	538,914	
Property insurance	41,362	
Property taxes	113,748	
	-----	-----
	694,024	
	-----	-----
Revenue in excess of certain operating expenses	\$ 752,934	=====
	=====	=====



See accompanying notes.

76

Sterling Park Apartments

Notes to Statements of Revenue and Certain Operating Expenses (Unaudited)

For the year ended December 31, 2003, and

For the period January 1 through September 29, 2004

1. Summary of Significant Accounting Policies

Basis of presentation

These statements of revenue and certain operating expenses reflect the operations of an apartment property located in Durham, North Carolina. Sterling Park Apartments is not a legal entity; it is an apartment property acquired by BNP Residential Properties, Inc. in September 2004, and subsequently renamed Bridges at Southpoint Apartments. The 192-unit apartment property was built in 1987.

We prepared these statements in accordance with Rule 3-14 of Regulation S-X. Accordingly, these statements exclude items such as interest, depreciation and amortization, and general and administrative expenses that are not comparable to the anticipated future on-site operations of the apartment property.

Revenue recognition

Sterling Park Apartments leased its residential apartments under operating leases with monthly payments due in advance. The majority of the apartment leases were for terms of one year or less. Rental and other revenues were recorded as earned.

Advertising expense

Sterling Park Apartments charged advertising costs to property operations expense as incurred. Advertising expense included in property operations expense totaled approximately \$42,000 for the year ended December 31, 2003, and approximately \$34,000 for the interim period in 2004.

Use of estimates

We are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes in order to prepare them in accordance with generally accepted accounting principles. Actual results could differ from those amounts.

Interim financial data

The financial statements for the period January 1 through September 29, 2004, include all adjustments that are, in management's opinion, necessary for a fair presentation of the revenues and certain operating expenses for this interim period. Operating results for the period January 1 through September 29, 2004, are not necessarily indicative of the results to be expected for the entire year ending December 31, 2004.

2. Environmental Matters

Bridges at Southpoint Apartments, formerly named Sterling Park Apartments, has been subjected to Phase I environmental reviews. These reviews did not reveal, nor is management aware of, any environmental liability that management believes would have a material adverse effect on the accompanying financial statements.

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77

BNP RESIDENTIAL PROPERTIES, INC.

Schedule III - Real Estate and Accumulated Depreciation  
Year ended December 31, 2004

Description	Encumb.	Initial Costs		Costs Capitalized Subsequent to Acquisition	Gross Carried at	
		Land	Buildings & Improvem'ts		Land	B
Apartment Properties:						
North Carolina:						
Abbingtion Place, Greensboro	\$ 15,785,250	\$ 2,302,000	\$23,598,676	\$ 350,728	\$ 2,302,000	\$
Allerton Place, Greensboro	10,270,000	1,384,000	14,650,428	234,756	1,384,000	
Barrington Place, Charlotte	19,763,051	2,604,000	24,002,687	280,484	2,604,000	
Brookford Place, Greensboro	4,743,245	465,000	5,157,507	85,392	465,000	
Carriage Club, Mooresville	14,900,000	1,984,000	17,714,261	44,494	1,984,000	
Chason Ridge, Fayetteville	11,500,000	624,000	11,790,472	954,828	994,606	
Fairington, Charlotte	13,400,000	4,257,200	14,322,231	196,129	4,257,200	
Harrington, Charlotte	15,000,000	1,790,000	16,113,942	416,233	1,790,000	
Harris Hill, Charlotte	5,527,259	1,003,298	7,867,857	1,252,325	1,003,298	
Madison Hall, Clemmons	4,245,000	303,000	6,054,307	258,653	303,000	
Marina Sh. Waterfront, Corneli	15,485,060	4,144,000	15,062,322	1,003,097	4,144,000	
Oak Hollow, Cary	8,385,000	1,480,000	10,808,689	1,732,090	1,480,000	
Oak Hollow - Phase 2, Cary	10,453,470	1,914,000	10,485,239	2,070,839	1,914,000	
Oakbrook, Charlotte	7,650,608	848,835	8,523,384	1,148,120	848,835	
Paces Commons, Charlotte	15,906,778	1,430,158	12,871,424	1,688,557	1,448,184	
Paces Village, Greensboro	7,000,000	1,250,000	9,416,580	663,255	1,250,000	
Pepperstone, Greensboro	3,883,750	552,000	5,015,153	333,135	552,000	
Savannah Place, Winston-Salem	7,312,500	790,000	10,032,721	436,376	790,000	
Southpoint, Durham	8,200,000	1,610,500	8,620,734	68,990	1,610,500	
Summerlyn Place, Burlington	6,645,000	837,000	9,559,115	170,729	837,000	
Waterford Place, Greensboro	11,089,000	1,686,000	16,745,972	13,973	1,686,000	
Wind River, Morrisville	19,594,972	3,170,000	21,922,771	380,079	3,170,000	
Woods Edge, Durham	9,750,000	994,000	13,061,195	1,712,553	994,000	
Computer and support equipment	-	-	-	1,040,593	-	-
	246,489,943	37,422,991	293,397,666	16,536,409	37,811,623	3
South Carolina:						
The Place, Greenville	4,453,780	630,000	4,991,397	295,446	630,000	
Savannah Shores, Myrtle Beach	9,000,000	1,881,890	10,664,750	114,865	1,881,890	
	13,453,780	2,511,890	15,656,147	410,311	2,511,890	
Virginia:						
Latitudes, Virginia Beach	10,165,870	3,360,000	18,606,667	1,217,059	3,360,000	
Total Apartment Properties	270,109,593	43,294,881	327,660,480	18,163,778	43,683,513	3

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Description -----	Accumulated Depreciation	Date of Constr.	Date Acquired	Life (Years)
Apartment Properties:				
North Carolina:				
Abbingtion Place, Greensboro	\$ 5,997,264	1997	Dec-97	40
Allerton Place, Greensboro	3,134,690	1998	Sep-98	40
Barrington Place, Charlotte	1,811,678	1999	May-02	60
Brookford Place, Greensboro	461,459	1998	May-02	60
Carriage Club, Mooresville	308,753	2000	Jun-04	60
Chason Ridge, Fayetteville	2,319,737	1994	Jan-99	40
Fairington, Charlotte	250,688	1981	Aug-04	40
Harrington, Charlotte	595,516	1997	Aug-03	60
Harris Hill, Charlotte	2,615,565	1988	Dec-94	40
Madison Hall, Clemmons	1,269,153	1997	Aug-98	40
Marina Sh. Waterfront, Corne	1,167,862	1994	Sep-02	60
Oak Hollow, Cary	2,273,262	1983	Jul-98	40
Oak Hollow - Phase 2, Cary	1,876,129	1986	Dec-00	40
Oakbrook, Charlotte	2,792,681	1985	Jun-94	40
Paces Commons, Charlotte	4,628,879	1988	Jun-93	40
Paces Village, Greensboro	2,664,117	1988	Apr-96	40
Pepperstone, Greensboro	1,302,933	1992	Dec-97	40
Savannah Place, Winston-Sale	2,526,716	1991	Dec-97	40
Southpoint, Durham	91,885	1987	Sep-04	43
Summerlyn Place, Burlington	1,856,284	1998	Sep-98	40
Waterford Place, Greensboro	4,133,178	1997	Dec-97	40
Wind River, Morrisville	468,707	2000	May-04	60
Woods Edge, Durham	2,973,137	1985	Jun-98	40
Computer and support equipment	665,681			
	-----			
	48,185,953			
South Carolina:				
The Place, Greenville	404,954	1985	Mar-03	45
Savannah Shores, Myrtle Beach	169,562	1998	Jul-04	60
	-----			
	574,516			
Virginia:				
Latitudes, Virginia Beach	5,753,482	1989	Oct-94	38
	-----			
Total Apartment Properties	54,513,951			

78

Description -----	Encumb. -----	Initial Costs -----	Costs Capitalized Subsequent to Acquisition	Gros Carried a -----
		Land	Buildings & Improvem'ts	Land
Restaurant Properties:				

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North Carolina:					
Burlington	(1)	162,411	417,629	-	162,411
Denver	(1)	275,484	708,387	-	275,484
Eden	(1)	253,282	651,296	-	253,282
Fayetteville (Ramsey)	(1)	260,135	668,919	-	260,135
Fayetteville (N.Eastern)	(1)	308,271	792,696	-	308,271
Hillsborough	(1)	290,868	747,948	-	290,868
Kinston (W. Vernon)	(1)	237,135	609,777	-	237,135
Kinston (Richlands)	(1)	231,678	595,743	-	231,678
Newton	(1)	223,453	574,594	-	223,453
Siler City	(1)	268,312	689,945	-	268,312
Spring Lake	(1)	218,925	562,949	-	218,925
Thomasville (E. Main)	(1)	253,716	652,411	-	253,716
Thomasville (Randolph)	(1)	327,727	842,726	-	327,727
		3,311,397	8,515,020	-	3,311,397
Virginia:					
Ashland	(1)	296,509	762,452	-	296,509
Blackstone	(1)	275,565	708,596	-	275,565
Bluefield	(1)	205,700	528,947	-	205,700
Chester	(1)	300,165	771,852	-	300,165
Clarksville	(1)	211,545	543,972	-	211,545
Clintwood	(1)	222,673	572,588	-	222,673
Dublin	(1)	364,065	936,168	-	364,065
Franklin	(1)	287,867	740,230	-	287,867
Galax	(1)	309,578	796,057	-	309,578
Hopewell	(1)	263,939	678,701	-	263,939
Lebanon	(1)	266,340	684,876	-	266,340
Lynchburg (Langhorne)	(1)	249,865	642,509	-	249,865
Lynchburg (Timberlake)	(1)	276,153	710,107	-	276,153
Norfolk	(1)	325,822	837,829	-	325,822
Orange	(1)	244,883	629,699	-	244,883
Petersburg	(1)	357,984	920,531	-	357,984
Richmond (Forest Hill)	(1)	196,084	504,216	-	196,084
Richmond (Midlothian)	(1)	270,736	696,179	-	270,736
Richmond (Myers)	(1)	321,946	827,861	-	321,946

Description

	Accumulated	Date of	Date	Life
	Depreciation	Constr.	Acquired	(Years)
Restaurant Properties:				
North Carolina:				
Burlington	184,951	Oct-85	Apr-87	40
Denver	313,717	Jul-83	Apr-87	40
Eden	288,433	Jun-73	Apr-87	40
Fayetteville (Ramsey)	296,239	Oct-73	Apr-87	40
Fayetteville (N.Eastern)	351,054	Sep-83	Apr-87	40
Hillsborough	331,237	Mar-78	Apr-87	40
Kinston (W. Vernon)	270,046	Jul-62	Apr-87	40
Kinston (Richlands)	263,831	Dec-81	Apr-87	40
Newton	254,466	Mar-76	Apr-87	40
Siler City	305,550	May-79	Apr-87	40
Spring Lake	249,308	Mar-76	Apr-87	40
Thomasville (E. Main)	288,928	Feb-66	Apr-87	40
Thomasville (Randolph)	373,210	Apr-74	Apr-87	40

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3,770,971

Virginia:				
Ashland	337,661	Apr-87	Apr-87	40
Blackstone	313,810	Sep-79	Apr-87	40
Bluefield	234,250	Feb-85	Apr-87	40
Chester	341,823	May-73	Apr-87	40
Clarksville	240,904	Oct-85	Apr-87	40
Clintwood	253,577	Jan-81	Apr-87	40
Dublin	414,593	Jul-83	Apr-87	40
Franklin	327,819	Feb-75	Apr-87	40
Galax	352,542	Jun-74	Apr-87	40
Hopewell	300,571	Jun-78	Apr-87	40
Lebanon	303,305	Jun-83	Apr-87	40
Lynchburg (Langhorne)	284,542	Sep-82	Apr-87	40
Lynchburg (Timberlake)	314,479	Aug-83	Apr-87	40
Norfolk	371,042	Aug-84	Apr-87	40
Orange	278,869	Aug-74	Apr-87	40
Petersburg	407,668	Mar-74	Apr-87	40
Richmond (Forest Hill)	223,298	Nov-74	Apr-87	40
Richmond (Midlothian)	308,310	Jan-74	Apr-87	40
Richmond (Myers)	366,628	Apr-83	Apr-87	40

79

Description -----	Encumb. -----	Initial Costs -----		Costs Capitalized Subsequent to Acquisition	Gross Carried at -----	
		Land	Buildings & Improvem'ts		Land	B I
Roanoke (Hollins)	(1)	257,863	663,076	-	257,863	
Roanoke (Abenham)	(1)	235,864	606,507	-	235,864	
Rocky Mount	(1)	248,434	638,829	-	248,434	
Smithfield	(1)	223,070	573,608	-	223,070	
Verona	(1)	191,631	492,765	-	191,631	
Virginia Beach (Lynnhaven)	(1)	271,570	698,322	-	231,731	
Virginia Beach (Holland)	(1)	277,943	714,710	-	277,943	
Wise	(1)	219,471	564,355	-	219,471	
		7,173,265	18,445,542	-	7,133,426	
-----						
Total Restaurant Properties	16,315,857	10,484,662	26,960,562	-	10,444,823	
-----						
Total Real Estate	\$ 286,425,450	\$53,779,543	\$ 354,621,042	\$18,163,778	\$ 54,128,336	\$ 3
=====						

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Description -----	Accumulated Depreciation	Date of Constr.	Date Acquired	Life (Years)
Roanoke (Hollins)	293,651	Feb-73	Apr-87	40
Roanoke (Abenham)	268,599	Nov-82	Apr-87	40
Rocky Mount	282,912	May-80	Apr-87	40
Smithfield	254,029	Apr-77	Apr-87	40
Verona	218,226	Jan-85	Apr-87	40
Virginia Beach (Lynnhaven)	309,260	Jun-80	Apr-87	40
Virginia Beach (Holland)	316,517	Aug-83	Apr-87	40
Wise	249,930	Jun-80	Apr-87	40
	----- 8,168,810			
Total Restaurant Properties	----- 11,939,781 -----			
Total Real Estate	----- \$ 66,453,731 =====			

(1) Indicates the restaurants encumbered by a line of credit with a bank for up to \$16,315,857 outstanding at 12/31/04.

(2) Aggregate cost basis at December 31, 2004, for federal income tax purposes was approximately \$390 million.

80

BNP RESIDENTIAL PROPERTIES, INC.

-----  
Schedule III - Real Estate and Accumulated Depreciation

	2004 -----	2003 -----	2002 -----
Real estate investments:			
Balance at beginning of year	\$ 337,066,609	\$ 314,871,784	\$ 260,000,000
Additions during year			
Acquisitions	86,148,336	23,525,339	51,000,000
Improvements, etc.	5,231,775	3,350,919	2,000,000
Deductions during year	(1,922,195)	(4,681,433)	
Balance at close of year	----- \$ 426,524,525 =====	----- \$ 337,066,609 =====	----- \$ 314,871,784 =====
Accumulated depreciation:			
Balance at beginning of year	\$ 56,052,569	\$ 49,448,825	\$ 40,000,000
Provision for depreciation	11,660,219	10,039,615	8,000,000

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Deductions during year	(1,259,057)	(3,435,871)	
	-----	-----	-----
Balance at close of year	\$ 66,453,731	\$ 56,052,569	\$ 49
	=====	=====	=====

81

### INDEX TO EXHIBITS

Exhibit No.

- 2.1\* Master Agreement of Merger and Acquisition by and among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, Paul G. Chrysson, James G. Chrysson, W. Michael Gilley, Matthew G. Gallins, James D. Yopp, and the partnership and limited liability companies listed therein, dated September 22, 1997 (filed as Exhibit 2.1 to Registration Statement No. 333-39803 on Form S-2, December 16, 1997, and incorporated herein by reference)
- 2.2\* Amendment to Master Agreement of Merger and Acquisition dated September 22, 1997, by and among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, Paul G. Chrysson, James G. Chrysson, W. Michael Gilley, Matthew G. Gallins, James D. Yopp, and the partnerships and limited liability companies listed therein, dated November 3, 1997 (filed as Exhibit 2.3 to BNP Residential Properties Inc. Current Report on Form 8-K dated December 1, 1997, and incorporated herein by reference)
- 3.1\* Articles of Incorporation (filed as Exhibit 3.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated March 17, 1999, and incorporated herein by reference)
- 3.2\* Articles Supplementary, Classifying and Designating 909,090 Shares of Series B Cumulative Convertible Preferred Stock, dated December 28, 2001 (filed as Exhibit 3.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
- 3.3\* Amended and Restated By-Laws adopted May 20, 2004 (filed as Exhibit 3.1 to BNP Residential Properties, Inc., Current Report on Form 8-K dated July 14, 2004, and incorporated herein by reference)
- 4.1\* Rights Agreement, dated March 18, 1999, between the Company and First Union National Bank (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated March 17, 1999, and incorporated herein by reference)
- 4.2\* Registration Rights Agreement By and Among BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
- 10.1\* Second Amended and Restated Agreement of Limited Partnership of BNP Residential Properties Limited Partnership dated as of March 17, 1999 (filed as Exhibit 10.1 to the company's Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated herein by reference)
- 10.2\* Amendment to Second Amended and Restated Agreement of Limited Partnership of BNP Residential Properties Limited Partnership, dated December 28, 2001 (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
- 10.3\* Investment Agreement By and Between BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as Exhibit 10.2 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and

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- incorporated herein by reference)
- 10.4\* Amended and Restated Master Lease Agreement dated December 21, 1995, between BNP Residential Properties, Inc. and Boddie-Noell Enterprises, Inc. (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Annual Report on Form 10-K dated December 31, 1995, and incorporated herein by reference)
- 10.5\* Amended and Restated 1994 Stock Option and Incentive Plan (filed as Exhibit 10.8 to BNP Residential Properties, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, and incorporated by reference herein)

82

### Exhibit No.

- 10.6\* Form and description of Employment Agreements dated July 15, 1997, and December 1, 2002, between BNP Residential Properties, Inc. and certain officers (filed as Exhibit 10 to BNP Residential Properties, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 1997; and as Exhibit 10.7 to BNP Residential Properties, Inc. Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference)
- 10.7\* Purchase Agreement by and among BNP Residential Properties, Inc. and Purchasers for 1,175,519 shares of common stock, dated as of February 17, 2004 (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated February 23, 2004, and incorporated herein by reference)
- 10.8\* Purchase Agreement by and among BNP Residential Properties, Inc. and Purchasers for 1,420,000 shares of common stock, dated as of July 14, 2004 (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated July 14, 2004, and incorporated herein by reference)
- 10.9 Exchange Agreement among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, and Beach Investment Properties, LLC and members thereof, dated as of December 7, 2004
- 10.10 Exchange Agreement among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, and Timberline Ventures, LLC and members thereof, dated as of December 7, 2004
- 10.11 Exchange Agreement among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, and Laurel Springs II, LLC and members thereof, dated as December 7, 2004
- 10.12 Exchange Agreement among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, and Salem Ridge/Shugart, LLC and members thereof, dated as of December 7, 2004
- 21 Subsidiaries of the Registrant
- 23 Consent of Ernst & Young LLP
- 31.1 Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer
- 32.1 Section 1350 Certification by Chief Executive Officer
- 32.2 Section 1350 Certification by Chief Financial Officer

\* Incorporated herein by reference

83