

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

AMERIVEST PROPERTIES INC  
Form 10QSB  
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2001.

OR

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

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

Commission file number 1-14462

AmeriVest Properties Inc.  
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(Exact name of small business issuer as specified in its charter.)

Maryland  
-----

(State or other jurisdiction of  
incorporation or organization)

84-1240264  
-----

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

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

80222  
-----

(Zip Code)

(303) 297-1800  
-----

(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section  
13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter  
period that the registrant was required to file such reports), and (2) has been  
subject to such filing requirements for the past 90 days.

Yes X No  
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As of May 14, 2001 the Registrant had outstanding 3,171,381 shares of common  
stock, par value \$.001.

Transitional Small Business Disclosure Format (check one):

Yes No X  
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AMERIVEST PROPERTIES INC. AND SUBSIDIARIES  
FORM 10-QSB  
MARCH 31, 2001

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## AMERIVEST PROPERTIES INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2001 ---- (Unaudited)
ASSETS	
Investment in real estate	
Land	\$ 8,761,566
Buildings and improvements	34,808,776
Furniture, fixtures and equipment	68,188

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Tenant improvements	764,587
Tenant leasing commissions	578,325
Less accumulated depreciation and amortization	(3,537,121)
	-----
Net Investment in Real Estate	41,444,321
Cash and cash equivalents	1,135,295
Investment in unconsolidated affiliate, net	573,797
Accounts receivable	131,532
Deferred rents receivable	568,733
Deferred financing costs, net	393,026
Prepaid expenses, escrows and other assets	754,524
	-----
Total Assets	\$ 45,001,228
	=====
LIABILITIES	
Mortgage loans and notes payable	\$ 28,828,554
Accounts payable and accrued expenses	2,671,562
Accrued real estate taxes	385,569
Prepaid rents and security deposits	707,390
Dividends payable	396,423
	-----
Total Liabilities	32,989,498
	-----
STOCKHOLDERS' EQUITY	
Preferred stock, \$.001 par value	
Authorized - 5,000,000 shares	
Issued and outstanding - none	--
Common stock, \$.001 par value	
Authorized - 15,000,000 shares	
Issued and outstanding - 3,171,381 and 2,976,939 shares, respectively	3,171
Capital in excess of par value	12,883,985
Distributions in excess of accumulated earnings	(875,426)
	-----
Total Stockholders' Equity	12,011,730
	-----
Total Liabilities and Stockholders' Equity	\$ 45,001,228
	=====

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

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	2001 ----- (Unaudited)	2000 ----- (Unaudited)
REAL ESTATE OPERATING REVENUE		
Rental Revenue		
Commercial properties	\$ 1,979,081	\$ 1,297,682
Storage properties	--	315,195
	-----	-----
	1,979,081	1,612,877
	-----	-----
REAL ESTATE OPERATING EXPENSES		
Property operating expenses		
Operating expenses	586,649	412,173
Real estate taxes	147,980	157,079
Management fees	101,301	78,853
General and administrative	162,945	133,821
Interest	595,476	449,244
Depreciation and amortization	341,055	276,127
	-----	-----
	1,935,406	1,507,297
	-----	-----
OTHER INCOME		
Interest income	11,738	9,073
Equity in loss of unconsolidated affiliate	(10,843)	--
	-----	-----
	895	9,073
	-----	-----
NET INCOME	\$ 44,570	\$ 114,653
	=====	=====
NET INCOME PER COMMON SHARE		
Basic	\$ 0.01	\$ 0.05
	=====	=====
Diluted	\$ 0.01	\$ 0.05
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	2,990,868	2,228,850
	=====	=====
Diluted	3,012,600	2,230,018
	=====	=====

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

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months En March 31, 2001 ----- (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net Income	\$ 44,570
Adjustments to reconcile net income to net cash provided by operating activities-	
Depreciation and amortization	341,055
Amortization of deferred financing costs	18,608
Amortization of warrants	4,605
Equity in loss of unconsolidated affiliate	10,843
Accrued interest added to mortgage payable	123,894
Changes in assets and liabilities-	
Increase in escrow deposits	--
(Increase) decrease in receivables	(79,204)
Increase in deferred rents receivables	(44,152)
(Increase) decrease in prepaid expenses, escrows and other assets	66,734
Increase in accounts payable and accrued expenses	283,590
Decrease in other accrued liabilities	(391,895)
	-----
Net cash from operating activities	378,648
	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Improvements of real estate	(1,449,315)
Leasing commissions paid	(11,543)
	-----
Net cash from investing activities	(1,460,858)
	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Additions to mortgage loans and notes payable	645,310
Payments on mortgage loans and notes payable	(63,506)
Net proceeds from exercising of options and warrants	960,843
Dividends paid	(372,118)
	-----
Net cash from financing activities	1,170,529
	-----
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>88,319</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>1,046,976</b>
	-----
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 1,135,295</b>
	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>	

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Cash paid for interest during the period

\$ 423,907

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

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AMERIVEST PROPERTIES INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000 (Unaudited)

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES

During the quarter ended March 31, 2001, the Company incurred \$2,604,044 in costs related to the improvement of Sheridan Center, which are included in investment in real estate on the accompanying balance sheet. Of these costs, \$1,362,506 are unpaid at March 31, 2001 and are included in accounts payable and accrued expenses on the accompanying balance sheet.

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

AMERIVEST PROPERTIES INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2001 (Unaudited)

1. Organization

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

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building in Appleton, Wisconsin, an office building complex in Indianapolis, Indiana, eighteen commercial office properties in the State of Texas, and an office building and a three-building office complex in Denver, Colorado.

### 2. General

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The unaudited financial statements included herein were prepared from the records of the Company in accordance with generally accepted accounting principles in the United States and reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position for the interim periods. Such financial statements generally conform to the presentation reflected in the Company's Form 10-KSB/A-2 filed with the Securities and Exchange Commission for the year ended December 31, 2000 and should be read in conjunction with this Form 10-QSB.

The results of operations for the three months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

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

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

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Effective January 1, 2000 all of the Company's properties are managed under an agreement (the "Agreement") with Sheridan Realty Advisors, LLC ("SRA"), which also manages day-to-day operations of the Company and assists and advises the Board of Directors on real estate acquisitions and investment opportunities. Certain senior members of SRA are members of the Company's management team and of the Company's Board of Directors. SRA receives an administrative fee, a property management and accounting fee, an advisory fee and a development fee for these services. In addition, SRA received incentive compensation in the form of five-year warrants to purchase up to 750,000 shares of common stock at \$5 per share. Issuance of the warrants was approved by the shareholders at the annual meeting on June 6, 2000. According to the Agreement, 225,000 of these warrants were granted and vested on the approval date. These vested warrants have an estimated fair value of \$73,668, which is being amortized over the life of the Agreement. The remaining 525,000 warrants vest in an amount equal to 2.1% of capital deployed for real property acquisitions. During the three months ended March 31, 2001, 61,201 of the remaining warrants vested and have an estimated fair value of \$39,633, which has been capitalized with the related acquisition costs on the accompanying balance sheet.

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### 4. Mortgage Loans and Notes Payable

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During the quarter ended March 31, 2001, the Company was advanced an additional \$395,310 on its existing loan agreement with US Bank National Association. The proceeds were used to fund construction costs related to the improvement of Sheridan Center. Additionally, the Company was advanced \$250,000 on its short-term revolving credit line from US Bank National Association to meet working capital needs. The credit line was repaid in April 2001.

### 5. Subsequent Event

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On May 1, 2001, the Company announced an agreement with Sheridan Investments, LLC, an affiliate, to purchase 100% of the ownership interests of Sheridan Plaza at Inverness, LLC, effective April 1, 2001. Sheridan Plaza at Inverness, LLC owns two office buildings located in Denver, Colorado. For accounting purposes, the purchase price is \$7,085,613, payable as follows: \$705,934 by the Company delivering its 9.639% preferred limited liability company membership interest in Sheridan Investments, LLC and \$6,379,679 payable in 1,121,209 shares of the Company's common stock, valued at \$5.69 per share (based on an average market price of the shares over a period of several days before and after the date of the announcement of the acquisition). The agreement is contingent upon receipt of majority shareholder approval, and is scheduled to close as soon as practicable after such approval is obtained.

Item 2. Management's Discussion and Analysis of Financial Condition and  
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Results of Operations.  
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The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Form 10-KSB and elsewhere.

Results Of Operations  
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Three Months Ended March 31, 2001, Compared With Three Months Ended March 31, 2000.  
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Real estate operating revenue increased by approximately \$366,000, operating expenses increased by approximately \$174,000, and real estate taxes decreased by approximately \$9,000 for the three-month period ended March 31, 2001 as compared to the same period in 2000, due primarily to the inclusion of the operations of the Panorama Falls building (acquired in May 2000) and the Sheridan Center office complex (acquired in September 2000) offset by the exclusion of the operations of the four self-storage facilities (sold in August 2000). Operating expenses also increased due to planned maintenance projects undertaken at several properties and increased utility costs. Management fees increased by approximately \$22,000 in 2001 as a result of the increase in operating revenue, and general and administrative expenses increased by approximately \$29,000 due the above mentioned acquisitions. Interest expense increased by approximately \$146,000 due to the increase in mortgage loans and notes payable, and depreciation and amortization increased by approximately \$65,000 due to the increase in depreciable real estate assets.

Interest income increased by approximately \$3,000 from 2000 due to the increase in the average outstanding balance of cash and cash equivalents and interest bearing escrows. The equity in loss of unconsolidated affiliate recognized in 2001 represents the Company's share of the net loss of Sheridan Plaza at Inverness, LLC. The Company acquired its interest in Sheridan Plaza at Inverness, LLC in September 2000.



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As a result of the revenue and expense items described above, net income for the three months ended March 31, 2001 was \$44,570, or \$.01 per share (basic and diluted), as compared to \$114,653, or \$.05 per share (basic and diluted), for the three months ended March 31, 2000.

Revenues for the three months ended March 31, 2001 include approximately \$242,000 of rental revenue from the Panorama Falls building. This building is 84% leased to Rhythms NetConnections Inc., a corporation that has reported losses and announced publicly that it is dealing with difficult market conditions. During the past few months, Rhythms has attempted to reduce its operating expenses and conserve its financial resources by terminating more than 41 percent of its employees. As of the date of this report, Rhythms was continuing to make all rent payments but had vacated a majority of the leased premises with statements to the building manager that it still intended to keep its Panorama Falls lease. If Rhythms were to default on its Panorama Falls lease, it could have a substantial adverse effect on the Company's revenues. Nevertheless, Management of the Company believes that, subject to market conditions, any adverse effect on the Company would be short-lived.

### Liquidity And Capital Resources

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From December 31, 2000 to March 31, 2001, net investment in real estate increased by approximately \$2,522,000. The net increase was primarily due to the renovation of Sheridan Center, net of depreciation for the three-month period of \$341,000.

At March 31, 2001, the Company had approximately \$1,135,000 of cash and cash equivalents, including approximately \$396,000 of cash to be utilized for a stockholder dividend distribution, which was paid on April 17, 2001. As compared with December 31, 2000, accounts receivable increased by approximately \$79,000, and prepaid expenses, escrow and other assets decreased by \$67,000 due to normal business fluctuations. Net deferred financing costs decreased by approximately \$19,000 due to amortization.

Mortgage loans and notes payable increased by approximately \$706,000, primarily due to additional advances on existing mortgage loans offset by scheduled principal payments. Accounts payable and accrued expenses increased by approximately \$1,646,000, primarily due to the increased costs related to the renovation of Sheridan Center. Accrued real estate taxes decreased by approximately \$362,000 due to the payment of 2000 real estate taxes in the first quarter of 2001 offset by the accrual for the three-month period. Prepaid rents and security deposits decreased by approximately \$30,000 due primarily to normal business fluctuations. Dividends payable increased by approximately \$24,000, which is attributable to the increase in the number of shares of common stock outstanding.

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

Management believes that the cash flow from its properties, together with its existing bank line of credit, will be sufficient to meet the Company's working capital needs for the next year. The Company has a short-term revolving credit line from US Bank in the amount of \$300,000. At March 31, 2001, the Company had an outstanding balance of \$250,000 on the line of credit.

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

New Technical Pronouncements  
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In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). The Company is required to adopt SFAS No. 133 as of January 1, 2001. SFAS No. 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. To date, the Company's adoption of SFAS No. 133 has not had a material impact on its financial statements, as it has not entered into any derivative financial instruments or hedging activities.

In March 2000, the FASB issued FASB Interpretation ("FIN") No. 44, "Accounting for Certain Transactions Involving Stock Compensation." FIN No. 44 provides clarification and guidance on applying APB No. 25. FIN No. 44 generally provides for prospective application for grants or modifications to existing stock options or awards made after June 30, 2000. The Company's adoption of FIN No. 44 did not have a material impact on its financial statements.

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

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Part II. Other Information

Item 5. Other Information  
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None.

Item 6. Exhibits And Reports On Form 8-K.  
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- (a) During the quarter ended March 31, 2001, the Registrant filed a Current Report on Form 8-K describing materials that may be presented during meetings with analysts and others.

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

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undersigned thereunto duly authorized.

AMERIVEST PROPERTIES INC.

May 15, 2001

By: /s/ D. Scott Ikenberry

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D. Scott Ikenberry  
Chief Financial Officer