KOGER EQUITY INC
Form 424B2
September 04, 2003

Filed Pursuant to Rule 424(b)(2)
Registration Statement No. 333-37919

PROSPECTUS SUPPLEMENT
(To Prospectus dated November 18, 1997)

2,600,000 Shares

8 1/2% SERIES A CUMULATIVE REDEEMABLE PREFERRED STOCK
(Liquidation Preference $25.00 per Share)

The Series A Preferred Stock will not be redeemable before September 10, 2008 except under limited circumstances intended to preserve our status as a real estate investment trust for federal income tax purposes. Beginning September 10, 2008, we may redeem the Series A Preferred Stock, in whole or in part, at $25.00 per share plus accrued and unpaid dividends. Dividends on the Series A Preferred Stock will be cumulative from the date of issuance and are payable quarterly, starting December 15, 2003. The Series A Preferred Stock has no stated maturity, will not be subject to any sinking fund or mandatory redemption and will not be convertible into any of our other securities.

We expect to list the Series A Preferred Stock on the New York Stock Exchange and expect that trading will commence within 30 days after the initial delivery of the Series A Preferred Stock.

Investing in the Series A Preferred Stock involves risks. See Risk Factors on page S-4.

PRICE $25 A SHARE

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Koger
Per Share	$25.00	$.7875	$24.2125
Total	$65,000,000	$2,047,500	$62,952,500

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have granted to the underwriter the right to purchase up to an additional 390,000 shares of Series A Preferred Stock to cover overallotments.

The underwriter expects to deliver the Series A Preferred Stock in book-entry form only through the facilities of The Depository Trust Company, Clearstream, Luxembourg or the Euroclear System, as the case may be, on or about September 10, 2003.

MORGAN STANLEY

September 3, 2003

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriter has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate as of their dates. Our business, financial condition, results of operations and prospects may have changed since then.

As used in this prospectus supplement, references to we, our, the Company and Koger and similar references are to Koger Equity, Inc. and its consolidated subsidiaries unless otherwise expressly stated or the context otherwise requires.

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FORWARD-LOOKING STATEMENTS

Certain matters discussed in this prospectus supplement, the accompanying prospectus and the documents incorporated herein by reference, may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe the expectations reflected in such forward-looking statements are based on reasonable assumptions, there can be no assurance that our expectations will be attained. Certain factors that could cause actual results to differ materially from our expectations are set forth under the caption Risk Factors herein and as risk factors in our SEC reports and filings, including our annual report on Form 10-K for the year ended December 31, 2002. You should carefully read these risk factors. Included among these factors are:

Changes in economic conditions, including changes in the economic conditions affecting industries in which our principal tenants compete, both generally and in the markets in which we concentrate.

The effect of market interest rates on the price of the Series A Preferred Stock.

Our ability to timely lease or re-lease space at current or anticipated rents to creditworthy tenants.

Our ability to achieve economies of scale over time.

The demand for tenant services beyond those traditionally provided by landlords.

Changes in interest rates.

Changes in operating costs.

Our ability to attract and retain high-quality personnel at a reasonable cost in a highly competitive labor environment.

Future demand for our debt and equity securities.

Our ability to refinance our debt on reasonable terms at maturity.

Our ability to complete current and future development projects on schedule and on budget.

Discoveries of new or pre-existing environmental liabilities or non-compliance with environmental laws.

Other factors that may, from time to time, be discussed in our SEC reports and filings.

Many of these factors are beyond our ability to control or predict. Forward-looking statements are not guarantees of performance. For forward-looking statements contained or incorporated by reference herein, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We assume no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus supplement and the accompanying prospectus the information we file with the SEC. This means that we have disclosed important information to you by referring you to those documents. Our SEC file number is 1-9997. The information we incorporate by reference is considered a part of this prospectus supplement and the accompanying prospectus, and later information we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below which we have filed with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended:

Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

Proxy Statement on Schedule 14A for the 2003 Annual Meeting of Shareholders.

Quarterly Reports on Form 10-Q for the quarters ended March 31, and June 30, 2003.

Current Reports on Form 8-K and 8-K/A, filed with the SEC on January 16, January 29 (filed under Item 5), February 19, April 14, June 27, July 16, July 25 and September 2, 2003.

All documents that we file after the date of this prospectus supplement but before we terminate the offering of our securities shall be deemed to be incorporated by reference in this prospectus supplement and will be part of the prospectus supplement from the date we file that document; provided, however, that we are not incorporating by reference any information furnished under Item 9 or Item 12 of any Current Report on Form 8-K. Any information in future filings that is meant to supersede or modify any existing statement in this prospectus supplement will so supersede or modify the statement as appropriate.

You may request a copy of any or all of the documents incorporated by reference in this prospectus supplement, except the exhibits to such documents (unless such exhibits are specifically incorporated by reference in such documents), at no cost, by writing or telephoning our offices at the following address:

Koger Equity, Inc.

225 NE Mizner Boulevard, Suite 200
Boca Raton, Florida 33432
Attention: Principal Financial Officer
Telephone number (561) 395-9666

Our filings with the SEC are also available to the public over the internet at the SEC s web site at http//www.sec.gov or in the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

PROSPECTUS SUPPLEMENT SUMMARY

The following is only a summary. It should be read together with the more detailed information elsewhere in this prospectus supplement and the accompanying prospectus. In addition, important information, including capitalized terms used but not defined in this prospectus supplement, is incorporated by reference into the prospectus. Unless otherwise stated or the context otherwise requires, the information contained in this prospectus supplement assumes that the underwriter does not exercise its option to purchase additional shares of Series A Preferred Stock to cover overallotments.

Koger Equity, Inc.

We are a self-administered and self-managed equity real estate investment trust, or REIT, which develops, owns, operates, leases and manages suburban office buildings in metropolitan areas in the southeastern and southwestern United States. Our portfolio of assets consists of 124 office buildings totaling 8.93 million rentable square feet located in 16 suburban office projects in 9 metropolitan areas in the southeastern United States and Houston, Texas. As of June 30, 2003, the office projects in our portfolio were on average 82% occupied and the average annual base rent per rentable square foot occupied was $17.20. We expect to continue to acquire existing properties in markets compatible with our long-term investment strategy of investing in markets with a diversified and growing economic base with proven liquidity.

We are committed to providing a high level of tenant service. We provide leasing, management and other customary tenant-related services for each of the properties we manage. In addition to managing our own properties, for the past several years we have provided property and asset management services through our wholly-owned subsidiaries for office buildings owned by third parties. Currently, however, we are not providing property and asset management services for any office buildings owned by third parties though we may decide to do so again in the future.

As of June 30, 2003, we also owned approximately 55.8 acres of unencumbered land held for development, approximately 15.5 acres of unencumbered land held for sale and approximately 6 acres of land which is not suitable for development. A majority of the land held for development adjoins five of our office projects, which have infrastructure, including roads and utilities, in place. The remaining land held for development adjoins properties that were sold during 2001. We intend over time to develop and construct office buildings using this land and to acquire additional land for development.

We have benefited, and expect to continue to benefit, from the following competitive advantages:

Strong Suburban Office Property Market Franchise. Our office projects are sited for tenant convenience. Always near major transportation arteries, they are accessible to airports, business centers, preferred shopping areas and labor markets.

Superior Property Management. Each of our office projects is maintained by an on-site, full-service, professional staff.

Development Expertise and Available Land Holdings. Since the beginning of 1998, we have developed over 1.9 million square feet of office space. We also hold approximately 55.8 acres of unencumbered land which we intend to develop in the future.

Acquisition Expertise. Since the beginning of 1998, we have acquired over 3.6 million square feet of office space for approximately $420 million. It is our intent to continue to acquire suburban office properties.

We are organized as a Florida corporation. Our executive offices are located at 225 NE Mizner Boulevard, Suite 200, Boca Raton, Florida 33432 and our telephone number is (561) 395-9666.

Recent Developments

Agreement to Acquire Dallas, Texas Properties

In August, 2003, we entered into a binding agreement to acquire two properties known as the Rosemeade Building and CIGNA Plaza in Dallas, Texas for approximately $33.2 million. The two office buildings contain an aggregate of approximately 280,000 square feet of rentable space and are to be acquired from the State Teachers Retirement System of Ohio, an unrelated third party. According to records provided by the seller of the properties, the properties are currently 96% leased. We expect to fund this purchase with a portion of the net proceeds from this offering.

The Offering

Issuer	Koger Equity, Inc.
Securities Offered	2,600,000 shares of 8 1/2% Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share. We may sell up to 390,000 additional shares of Series A Preferred Stock to the underwriter to cover overallotments, if any.
Dividends	You will be entitled to cumulative cash dividends on the Series A Preferred Stock at a rate of 8 1/2% of the liquidation preference of the Series A Preferred Stock per year, or $2.125 per year per share. Dividends on the Series A Preferred Stock will be payable quarterly each year on the fifteenth day of March, June, September and December. The first dividend is payable on December 15, 2003 and at that time you will be entitled to receive the full amount of a quarterly dividend, plus a prorated amount for the period from the date of original issuance of the Series A Preferred Stock through September 15, 2003.
Maturity	The Series A Preferred Stock will not have a stated maturity and will not be subject to any sinking fund or mandatory redemption provisions. Accordingly, the Series A Preferred Stock will remain outstanding unless we decide to redeem it.
Optional Redemption	We may not redeem the Series A Preferred Stock prior to September 10, 2008, except under limited circumstances intended to preserve our status as a real estate investment trust for federal income tax purposes. On or after September 10, 2008, at our option, we may redeem the Series A Preferred Stock, in whole or in part, for cash in the amount of $25.00 per share, plus accrued and unpaid dividends to the date of redemption.
Liquidation Preference	If we liquidate, dissolve or wind up our operations, the holders of Series A Preferred Stock will have the right to receive $25.00 per share, plus all accrued and unpaid dividends to the date of payment, before any payment is made to the holders of our common stock.
Ranking	We will pay dividends, and if we liquidate, dissolve or wind up our operations we will make liquidating distributions, to holders of the Series A Preferred Stock and any other outstanding series of our preferred stock on an equal basis before we make any such payments to holders of our common shares. At this time we do not have any series of preferred stock outstanding.

Voting Rights	Holders of Series A Preferred Stock generally will have no voting rights. However, if we do not pay dividends on the Series A Preferred Stock for six or more quarterly periods (whether or not consecutive), the holders of the Series A Preferred Stock (voting separately as a class with all other classes or series of our equity securities upon which similar voting rights have been conferred and are exercisable) will be entitled to vote for the election of two additional directors to serve on our board of directors until we pay all dividends we owe on the Series A Preferred Stock. The holders of the Series A Preferred Stock also will be entitled to additional voting rights as described in this prospectus supplement and the accompanying prospectus.
NYSE Listing	We expect to list the Series A Preferred Stock on the New York Stock Exchange and expect that trading will commence within 30 days after initial delivery of the Series A Preferred Stock.
No Conversion Rights	The Series A Preferred Stock will not be convertible into or exchangeable for any other securities or property.
Book-Entry Form	The Series A Preferred will be issued and maintained in book-entry form registered in the name of the nominee of The Depository Trust Company.
Restriction on Ownership and Transfer	Our articles of incorporation and bylaws contain provisions which are intended to help preserve our status as a real estate investment trust for federal income tax purposes. For example, if our board of directors determines that the direct or indirect ownership of shares of our capital stock, including the Series A Preferred Stock, has or may become concentrated to an extent that would prevent us from qualifying as a real estate investment trust, we may redeem those shares at any time. Similarly, we may prevent any proposed transfer of our capital stock, including the Series A Preferred Stock, which would jeopardize our status as a real estate investment trust.
Use of Proceeds	We will use the net proceeds from the offering of the Series A Preferred Stock to acquire the Rosemeade Building and CIGNA Plaza in Dallas, Texas and to reduce the outstanding balance of our credit facility.

RISK FACTORS

Investing in the Series A Preferred Stock involves risks. As with other publicly traded securities, the value of the Series A Preferred Stock will depend upon various market conditions and other factors which may change from time to time. In particular, the market value of the Series A Preferred Stock may fluctuate depending on market interest rates relative to the dividend rate on the Series A Preferred Stock, the extent of investor interest in our company and the market s perception of us, including our growth potential and the value of our assets. Specific factors which could adversely affect our financial condition, our results of operations or the market s perception of us and hence the market value of the Series A Preferred Stock include the following:

Our financial condition and results of operations are subject to all the risks normally associated with the real estate industry, including risks that we may be unable to renew leases or relet space at favorable rents as leases expire to creditworthy tenants, that tenants will default or declare bankruptcy, that new acquisitions and our development, construction and renovation projects may fail to perform as expected, that competition for acquisitions could result in increased prices and, because real estate is illiquid, that we may not be able to sell properties when appropriate.

Our financial condition and results of operations are subject to the risks normally associated with debt financing, including the possibility of increases in interest rates that would result in increased interest expense on our variable rate debt, the possibility that we will not be able to refinance our debt on favorable terms and the risk that cash flows from our properties may not be sufficient to fund our debt service obligations.

To qualify as a REIT, we have to distribute at least 90% of our net taxable income, excluding net capital gains to our shareholders. Consequently, to fund future growth and capital needs, we are dependent on third-party sources of capital, including future equity offerings. This capital may not be available or may be available only on unfavorable terms.

Our status as a REIT is dependent on compliance with complex tax rules and regulations and various factual matters and circumstances that may not be totally within our control. Our failure to qualify as a REIT would subject us to corporate taxes and would have a significant adverse effect on the value of our outstanding securities, including the Series A Preferred Stock.

For additional information about the foregoing risks and additional risk factors relevant to an investment in the Series A Preferred Stock, we refer you to the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2002, which is incorporated by reference into this prospectus supplement.

USE OF PROCEEDS

The net proceeds to us from the sale of the Series A Preferred Stock offered hereby will be approximately $62.7 million, after deducting underwriting discounts and offering expenses payable by us (plus additional net proceeds of approximately $9.4 million if the underwriter s overallotment option is exercised in full). We intend to use $33.2 million to acquire the Rosemeade Building and CIGNA Plaza in Dallas, Texas, which we currently have under contract, and the remainder to reduce the outstanding balance under our credit facility. At June 30, 2003, the outstanding balance under our credit facility was approximately $31.0 million and had an interest rate of 3.33%. Our credit facility matures on December 27, 2004. Prior to funding the acquisition of the Dallas, Texas properties, we expect to invest a portion of the net proceeds from the sale of the Series A Preferred Stock in high quality short-term investments. In the event the overallotment option is exercised, we will use the net proceeds therefrom to further reduce the outstanding balance under our credit facility and for general corporate purposes.

CAPITALIZATION

The following table sets forth our actual and as adjusted capitalization as of June 30, 2003. The as adjusted amounts reflect the receipt of net proceeds from the sale of the Series A Preferred Stock of approximately $62.7 million and the application of such proceeds as set forth herein under the caption Use of Proceeds.

	June 30, 2003	
	Actual	**As Adjusted**
	(in thousands)	
Debt:		
Mortgages and loans payable[1]	$ 426,371	$ 396,818
Total debt	$ 426,371	$ 396,818
Shareholders equity:		
Series A Preferred Stock offered hereby[2]	$	$ 26
Common Stock	298	298
Capital in excess of par value[3]	472,364	535,041
Note receivable from stock sales to officers	(5,266)	(5,266)
Accumulated other comprehensive loss	(212)	(212)
Retained Earnings	613	613
Treasury Stock, at cost	(131,651)	(131,651)
Total shareholders equity	$ 336,146	$ 398,849
Total capitalization	$ 762,517	$ 795,667

(1) Includes actual and as adjusted credit facility borrowings of approximately $31.0 million and $1.4 million, respectively, at June 30, 2003.
(2) At June 30, 2003, 50,000,000 shares of preferred stock, $.01 par value, were authorized, but none were outstanding. As adjusted, 2,600,000 shares of preferred stock, $.01 par value, were outstanding in the form of the Series A Preferred Stock.
(3) As adjusted amount (in thousands) reflects an increase in capital in excess over par value of $64,974, less underwriting discounts and estimated offering expenses of approximately $2,297.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected consolidated financial data and should be read in conjunction with the consolidated financial statements and notes incorporated by reference herein. Our selected operating, balance sheet and other data for the years ended December 31, 1998 through 2002 and for the periods then ended have been derived from our audited financial statements. The unaudited financial data for the six months ended June 30, 2003 and 2002 includes all adjustments, consisting of normal recurring accruals, which we consider necessary for the fair presentation of our financial position and the results of operations for such period. The results for the six month period may not be indicative of the results to be expected for the full year.

(in thousands, except ratio information and per share data)	Six Months Ended June 30,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(unaudited)						
Operating Data:							
Rental revenues and other rental services	$ 72,244	$ 62,450	$126,404	$165,623	$164,733	$156,153	$133,663
Interest income	140	232	405	776	703	457	446
Total operating revenues[1]	72,580	64,203	129,751	169,703	166,526	158,537	135,940
Expenses							
Property operations	28,042	22,388	46,235	61,608	61,868	60,582	53,719
Depreciation and amortization	16,612	13,252	27,908	35,099	34,244	31,477	27,454
Mortgage and loan interest	14,770	11,823	25,145	26,112	28,157	22,730	17,543
General and administrative expense	6,030	5,457	11,381	8,412	20,217	8,633	6,953
Net Income	7,721	9,488	16,423	73,223	27,153	36,586	29,602
Earnings per share diluted	0.36	0.44	0.77	2.75	1.01	1.35	1.10
Dividends declared per common share	0.70	0.70	1.40	3.14	1.40	1.35	1.15
Weighted average shares outstanding -diluted	21,335	21,408	21,378	26,610	26,962	27,019	26,901
Balance Sheet Data (end of period):							
Operating properties (before depreciation)	$898,286	$787,215	$897,158	$663,286	$946,780	$927,523	$872,183
Undeveloped land	13,036	13,855	13,826	13,855	13,975	17,137	20,535
Total assets	796,738	701,830	805,085	690,585	851,022	885,739	834,995
Mortgages and loans payable	426,371	321,217	431,698	248,683	343,287	351,528	307,903
Total shareholders equity	336,146	351,407	343,068	354,542	448,493	467,826	464,763
Other Data:							
Funds from operations[2]	$ 23,465	$ 22,528	$ 43,834	$ 69,681	$ 56,107	$ 65,011	$ 56,486
Income before interest expense, income taxes, total depreciation and amortization	$ 39,082	$ 34,659	$ 69,063	$135,118	$ 89,533	$ 90,980	$ 75,555
Number of buildings (at end of period)	124	121	124	120	194	218	251
Percent occupied (at end of period)	82%	86%	84%	90%	90%	93%	90%

(1) Certain amounts have been reclassified for comparability with current year presentation.

(2) The Company believes that Funds from operations is one measure of the performance of an equity REIT. Funds from Operations should not be considered as an alternative to net income as an indication of the Company s financial performance or to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company s financial liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of the Company s needs. Funds from operations is calculated as follows (in thousands):

	Six Months Ended June 30,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(unaudited)						
Net income	$ 7,721	$ 9,488	$16,423	$ 73,223	$27,153	$36,586	$29,602
Depreciation real estate	14,581	12,319	25,889	32,261	31,720	28,800	25,146
Amortization deferred tenant costs	828	702	1,523	2,172	1,923	2,132	1,464
Amortization goodwill				170	170	170	170
Amortization fair value of acquired leases	924						
Minority interest		20	20	1,044	1,156	1,174	139
Gain on sale or disposition of operating properties				(39,189)	(5,963)	(3,846)	
Gain on sale or disposition of non-operating assets	(589)	(1)	(21)		(52)	(5)	(35)