

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

AMERIVEST PROPERTIES INC  
Form 10QSB  
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2001.

OR

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

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

Commission file number 1-14462

AmeriVest Properties Inc.

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

Maryland

84-1240264

(State or other jurisdiction of incorporation or organization)

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

1780 South Bellaire Street, Suite 515  
Denver, Colorado

80222

(Zip Code)

(303) 297-1800

(Issuer's telephone number, including area code)

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

Yes  No

As of November 14, 2001 the Registrant had outstanding 6,632,259 shares of common stock, par value \$.001.

Transitional Small Business Disclosure Format (check one):

Yes  No

AMERIVEST PROPERTIES INC. AND SUBSIDIARIES

# Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

FORM 10-QSB  
SEPTEMBER 30, 2001

## Table of Contents

| Part I<br>-----  | Page No.<br>----- |
|--|-------------------|
| Item 1. Condensed Consolidated Financial Statements  |                   |
| Condensed Consolidated Balance Sheets as of<br>September 30, 2001 (unaudited) and December 31, 2000                                      | 3                 |
| Condensed Consolidated Statements of Operations for<br>the Three and Nine Month Periods Ended September 30, 2001<br>and 2000 (unaudited) | 4                 |
| Condensed Consolidated Statements of Cash Flows for<br>the Nine Month Periods Ended September 30, 2001 and 2000<br>(unaudited)           | 5                 |
| Notes to Condensed Consolidated Financial Statements<br>(unaudited)  | 7                 |
| Item 2. Management's Discussion and Analysis of<br>Financial Condition and Results of Operations   | 12                |
| Part II<br>-----   |                   |
| Item 6. Exhibits and Reports on Form 8-K   | 16                |

2

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

| ASSETS   | September 30,<br>2001<br>----<br>(Unaudited) | December 31,<br>2000<br>---- |
|--|--|------------------------------|
| ASSETS   |  |                              |
| Investment in real estate                      |  |                              |
| Land   | \$ 9,960,376                                 | \$ 8,761,566                 |
| Buildings and improvements                     | 50,417,352                                   | 32,210,274                   |
| Furniture, fixtures and equipment              | 155,808                                      | 68,793                       |
| Tenant improvements                            | 1,431,132                                    | 645,429                      |
| Tenant leasing commissions                     | 271,632                                      | 585,887                      |
| Less accumulated depreciation and amortization | (2,717,634)                                  | (3,349,569)                  |
|  | -----  | -----                        |
| Net Investment in Real Estate                  | 59,518,666                                   | 38,922,380                   |

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

|  |               |               |
|--|---------------|---------------|
| Cash and cash equivalents                        | 9,216,887     | 1,046,976     |
| Investment in unconsolidated affiliate, net      | --            | 584,640       |
| Accounts receivable                              | 156,853       | 52,328        |
| Deferred rents receivable                        | 324,330       | 524,581       |
| Deferred financing costs, net                    | 463,351       | 411,634       |
| Prepaid expenses, escrows and other assets       | 1,346,069     | 821,258       |
|  | -----         | -----         |
| Total Assets                                     | \$ 71,026,156 | \$ 42,363,797 |
|  | =====         | =====         |
| LIABILITIES                                      |               |               |
| Mortgage loans and notes payable                 | \$ 41,875,236 | \$ 28,122,856 |
| Accounts payable and accrued expenses            | 1,662,097     | 1,025,466     |
| Accrued real estate taxes                        | 810,955       | 747,647       |
| Prepaid rents and security deposits              | 990,573       | 737,207       |
| Dividends payable                                | 826,605       | 372,118       |
|  | -----         | -----         |
| Total Liabilities                                | 46,165,466    | 31,005,294    |
|  | -----         | -----         |
| STOCKHOLDERS' EQUITY                             |               |               |
| Preferred stock, \$.001 par value                |               |               |
| Authorized - 5,000,000 shares                    |               |               |
| Issued and outstanding - none                    | --            | --            |
| Common stock, \$.001 par value                   |               |               |
| Authorized - 15,000,000 shares                   |               |               |
| Issued and outstanding - 6,612,843 and 2,976,939 |               |               |
| shares, respectively                             | 6,613         | 2,977         |
| Capital in excess of par value                   | 30,709,501    | 11,879,099    |
| Distributions in excess of accumulated earnings  | (5,855,424)   | (523,573)     |
|  | -----         | -----         |
| Total Stockholders' Equity                       | 24,860,690    | 11,358,503    |
|  | -----         | -----         |
| Total Liabilities and Stockholders' Equity       | \$ 71,026,156 | \$ 42,363,797 |
|  | =====         | =====         |

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

3

AMERIVEST PROPERTIES INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|                               | For the Three<br>Month Periods Ended<br>September 30, |             | For the Nine<br>Month Periods En<br>September 30, |             |
|-------------------------------|---|-------------|---|-------------|
|                               | 2001  | 2000        | 2001  | (Una        |
|                               | ----  | ----        | ----  | ----        |
|                               | (Unaudited)   | (Unaudited) | (Unaudited)                                       | (Unaudited) |
| REAL ESTATE OPERATING REVENUE |   |             |   |             |
| Rental Revenue                |   |             |   |             |

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

|  |              |              |              |       |
|--|--------------|--------------|--------------|-------|
| Commercial properties                            | \$ 2,697,223 | \$ 1,696,813 | \$ 7,496,114 | \$ 4, |
| Storage properties                               | --           | 217,208      | --           |       |
|  | -----        | -----        | -----        | ----- |
|  | 2,697,223    | 1,914,021    | 7,496,114    | 5,    |
|  | -----        | -----        | -----        | ----- |
| REAL ESTATE OPERATING EXPENSES                   |              |              |              |       |
| Property operating expenses                      |              |              |              |       |
| Operating expenses                               | 687,590      | 557,756      | 1,955,488    | 1,    |
| Real estate taxes                                | 220,080      | 162,223      | 594,282      |       |
| Management fees                                  | 137,807      | 81,826       | 380,653      |       |
| General and administrative                       | 162,985      | 135,222      | 521,266      |       |
| Severance expense                                | --           | 255,442      | --           |       |
| Impairment of deferred rents receivable          | --           | --           | 326,113      |       |
| Interest   | 845,987      | 577,303      | 2,336,038    | 1,    |
| Depreciation and amortization                    | 534,296      | 291,208      | 1,667,362    |       |
|  | -----        | -----        | -----        | ----- |
|  | 2,588,745    | 2,060,980    | 7,781,202    | 5,    |
|  | -----        | -----        | -----        | ----- |
| OTHER INCOME                                     |              |              |              |       |
| Interest income                                  | 71,184       | 18,082       | 92,366       |       |
| Equity in loss of unconsolidated affiliate       | --           | (19,424)     | (10,843)     |       |
|  | -----        | -----        | -----        | ----- |
|  | 71,184       | (1,342)      | 81,523       |       |
|  | -----        | -----        | -----        | ----- |
| INCOME (LOSS) BEFORE GAIN ON SALE OF REAL ESTATE |              |              |              |       |
|  | 179,662      | (148,301)    | (203,565)    |       |
|  | -----        | -----        | -----        | ----- |
| GAIN ON SALE OF REAL ESTATE                      |              |              |              |       |
|  | --           | 2,556,839    | 1,143,698    | 2,    |
|  | -----        | -----        | -----        | ----- |
| NET INCOME                                       |              |              |              |       |
|  | \$ 179,662   | \$ 2,408,538 | \$ 940,133   | \$ 2, |
|  | =====        | =====        | =====        | ===== |
| NET INCOME PER COMMON SHARE                      |              |              |              |       |
| Basic  | \$ 0.03      | \$ 0.95      | \$ 0.23      | \$    |
|  | =====        | =====        | =====        | ===== |
| Diluted  | \$ 0.03      | \$ 0.95      | \$ 0.23      | \$    |
|  | =====        | =====        | =====        | ===== |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING       |              |              |              |       |
| Basic  | 5,773,195    | 2,545,560    | 4,020,898    | 2,    |
|  | =====        | =====        | =====        | ===== |
| Diluted  | 5,906,395    | 2,548,563    | 4,143,767    | 2,    |
|  | =====        | =====        | =====        | ===== |

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

# Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

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

|  | Nine Month Periods Ended<br>September 30, |                  |
|--|---|------------------|
|  | 2001                                      | 2000             |
|  | (Unaudited)                               | (Unaudited)      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                |   |                  |
| Net Income   | \$ 940,133                                | \$ 2,600,000     |
| Adjustments to reconcile net income to net cash from operating activities- |   |                  |
| Gain on sale of real estate  | (1,143,698)                               | (2,500,000)      |
| Depreciation and amortization  | 1,667,362                                 | 800,000          |
| Amortization of deferred financing costs                                   | 73,070                                    |                  |
| Amortization of warrants   | 34,473                                    |                  |
| Equity in loss of unconsolidated affiliate                                 | 10,843                                    |                  |
| Impairment of deferred rents receivable                                    | 326,113                                   |                  |
| Accrued interest added to mortgage payable                                 | 123,894                                   | 200,000          |
| Changes in assets and liabilities-   |   |                  |
| Decrease (increase) in accounts receivable                                 | 12,995                                    |                  |
| Increase in deferred rents receivable                                      | (125,862)                                 | (400,000)        |
| Increase in prepaid expenses, escrows and other assets                     | (167,753)                                 | (100,000)        |
| (Decrease) increase in accounts payable and accrued expenses               | (275,106)                                 | 800,000          |
| (Decrease) increase in other accrued liabilities                           | (328,814)                                 | 200,000          |
|  | 1,147,650                                 | 1,800,000        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                |   |                  |
| Improvements of real estate  | (5,507,311)                               | (16,000,000)     |
| Net proceeds from the sale of real estate                                  | 458,030                                   | 1,800,000        |
| Acquisition of Sheridan Plaza at Inverness, LLC, net of cash acquired      | (344,432)                                 |                  |
| Leasing commissions paid   | (84,710)                                  | (400,000)        |
| Release of escrow deposit  | --  | 500,000          |
|  | (5,478,423)                               | (14,200,000)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                |   |                  |
| Additions to mortgage loans and notes payable                              | 3,015,584                                 | 12,500,000       |
| Payments on mortgage loans and notes payable                               | (1,229,898)                               | (900,000)        |
| Net proceeds from common stock offering                                    | 10,962,729                                | 2,900,000        |
| Net proceeds from exercising of options and warrants                       | 974,093                                   |                  |
| Deferred financing costs paid  | (23,507)                                  | (100,000)        |
| Dividends paid   | (1,198,317)                               | (800,000)        |
|  | 12,500,684                                | 13,500,000       |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                           | <b>8,169,911</b>                          | <b>1,100,000</b> |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                      | <b>1,046,976</b>                          | <b>400,000</b>   |

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

|  |              |        |
|--|--------------|--------|
| CASH AND CASH EQUIVALENTS,<br>END OF PERIOD          | \$ 9,216,887 | \$ 1,6 |
| -----  |              |        |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW<br>INFORMATION: |              |        |
| Cash paid for interest during the period             | \$ 2,425,377 | \$ 1,3 |
| =====  |              |        |

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

5

AMERIVEST PROPERTIES INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2000 (Unaudited)

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

During the nine months ended September 30, 2001, the Company incurred \$5,314,507 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, \$796,047 were unpaid at September 30, 2001 and are included in accounts payable and accrued expenses on the accompanying balance sheet.

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

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

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

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

## Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Due to the related party nature of this transaction, accounting principles require the Company to record this acquisition at the historical net book value. The difference between the purchase price and the historical net book value was \$4,507,557 and has been recorded as a non-cash dividend.

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

6

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

#### 1. Organization

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

#### 2. General

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

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

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

#### 3. New Technical Pronouncements

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

## Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Under SFAS No. 142, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131 operating segment or one level lower. Goodwill will no longer be allocated to other long-lived assets for impairment testing under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". Additionally, goodwill on equity method investments will no longer be amortized; however, it will continue to be tested for impairment in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". Under SFAS No. 142 intangible assets with indefinite lives will not be amortized. Instead they will be carried at the lower of cost or market value and tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives.

7

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, although goodwill on business combinations consummated after July 1, 2001 will not be amortized and goodwill on prior business combinations will cease to be amortized. Had the Company adopted SFAS No. 142 at January 1, 2000, there would have been no effect on the Company's financial statements. The Company's adoption of these statements will not have an impact on its financial statements, as it has not recorded any goodwill or intangible assets.

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

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for fiscal periods beginning after December 15, 2001 and interim periods within those fiscal years. SFAS No. 144 establishes an accounting model for impairment or disposal of long-lived assets to be disposed of by sale. The Company is currently evaluating the potential impact, if any, the adoption of SFAS No. 144 will have on its financial position and results of operations.

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

Effective January 1, 2000, all of the Company's properties are managed under an agreement (the "Agreement") with Sheridan Realty Advisors, LLC ("SRA"), which also manages day-to-day operations of the Company and assists and advises the Board of Directors on real estate acquisitions and investment opportunities. Certain senior members of SRA are members of the Company's management team and of the Company's Board of Directors. SRA receives an administrative fee, a property management and accounting fee, an advisory fee and a development fee for these services. In addition, SRA received incentive compensation in the form of five-year warrants to purchase up to 750,000 shares of common stock at \$5 per share. Issuance of the warrants was approved by the shareholders at the annual meeting on June 6, 2000. In accordance with the Agreement, 225,000 of these warrants were granted and vested on the approval date. The remaining 525,000 warrants vest in an amount equal to 2.1% of equity capital deployed for real property acquisitions, of which, 48,795 had vested as of December 31, 2000. During the nine months ended September 30, 2001, 238,315 of the remaining



## Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

warrants vested and have an estimated fair value of \$177,648, which has been capitalized with the related acquisition costs on the accompanying balance sheet.

### 5. Stock Offering

On July 27, 2001, our Registration Statement became effective with the Securities and Exchange Commission for an offering of 2,000,000 shares of common stock, with a 30-day option to the underwriter to purchase up to an additional 300,000 shares to cover over-allotments, at a price of \$5.50 per share. On August 1, 2001, the Company received \$10,230,000, net of the underwriting discounts and commissions, from the sale of the 2,000,000 shares. On August 24, 2001, the Company received an additional \$1,340,370, net of the underwriting discounts and commissions, from the sale of 262,047 of the over-allotment shares. After payment of approximately \$608,000 in additional offering expenses, the proceeds will be used to acquire real estate properties, to repay debt, for capital improvements and/or to increase working capital.

8

### 6. Acquisitions and Dispositions

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

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

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

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

Due to the related party nature of this transaction, accounting principles require the Company to record this acquisition at the historical net book value. The difference between the purchase price and the historical net book value was \$4,507,557 and has been recorded as a non-cash dividend.

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

|                              | Nine Month Periods Ended |             |
|------------------------------|--------------------------|-------------|
|                              | September 30,            |             |
|                              | 2001                     | 2000        |
|                              | ----                     | ----        |
|                              | (unaudited)              | (unaudited) |
| Rental revenue               | \$7,979,541              | \$6,404,003 |
| Net operating income         | \$4,129,315              | \$3,181,007 |
| Net income                   | \$1,213,133              | \$3,472,989 |
| Net income per common share: |                          |             |
| Basic                        | \$ 0.26                  | \$ 0.99     |
| Diluted                      | \$ 0.25                  | \$ 0.99     |

#### 7. Mortgage Loans and Notes Payable

On June 7, 2001, the Company increased its available loan with US Bank National Association ("US Bank") secured by the Sheridan Center buildings from \$9,300,000 to \$10,500,000, of which \$9,469,799 was outstanding as of September 30, 2001. During the nine months ended September 30, 2001, the Company was advanced an additional \$2,003,383 on its existing loan agreement with US Bank. The proceeds were used to fund construction costs related to the improvement of Sheridan Center. Additionally, the Company has a \$300,000 short-term revolving credit line from US Bank to meet working capital needs. As of September 30, 2001, the Company did not have an outstanding balance on this credit line.

On June 13, 2001, the Company established a \$500,000 short-term unsecured credit line with Sheridan Investments, LLC, an affiliate, with an interest rate equal to the prime lending rate of US Bank, and with all outstanding principal and any unpaid accrued interest due on June 13, 2002. As of September 30, 2001, the Company did not have an outstanding balance on this credit line.

In association with the acquisition of Sheridan Plaza at Inverness, LLC, the Company assumed a mortgage that had a principal balance of \$14,954,425 on April 1, 2001, the effective acquisition date. The mortgage is payable to Teachers Insurance and Annuity Association of America and is due January 10, 2006 with principal and interest (totaling \$108,835) payable monthly with the unpaid principal and interest due at maturity. The loan bears interest at a fixed rate of 7.9% per year.

#### 8. Status of Significant Tenant and Related Impairment

On August 2, 2001, Rhythms NetConnections, Inc. ("Rhythms"), the primary tenant in the Company's Panorama Falls building in Englewood, Colorado, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Effective November 1, 2001, the Company agreed to terminate its lease with Rhythms and apply the security deposit from Rhythms in the amount of \$335,000 against future lease payments. Due to the bankruptcy filing, the Company recorded an impairment for

## Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

\$326,113 of unamortized deferred rents receivable and accelerated the

10

amortization of the \$323,447 unamortized lease commission related to the Rhythms lease during the second quarter of 2001. The deferred rents receivable represents the effects of recording, for accounting purposes, straight-line rent resulting from a free rent period at the inception of the lease in exchange for Rhythms' providing all tenant improvements. The rental revenue related to Rhythms was approximately \$574,000 and \$480,000 for the nine months ended September 30, 2001 and the year ended December 31, 2000, which is approximately 8% and 7% of the Company's total rental revenue for the respective periods. The Company intends to sell part or all of the Panorama Falls property and has entered into a contract to sell 80% of the property for approximately \$4.9 million. This contract is subject to a number of contingencies, including refinancing of the existing mortgage loan, and there is no assurance that these contingencies will be satisfied or that the interest will be sold.

### 9. Subsequent Events

In July 2001, the Company entered into a contract to sell its office building in Odessa, Texas for \$132,500. The sale closed on October 23, 2001, resulting in a gain on sale of approximately \$12,000 for accounting purposes.

The Company has entered into two separate contracts to acquire two additional office properties within the next 60 days for an aggregate of approximately \$26.3 million. Both contracts are subject to a number of contingencies and there is no assurance that either of these acquisitions will occur.

11

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

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Form 10-KSB/A-2 and elsewhere.

### Results Of Operations

Comparison of the three months ended September 30, 2001 to the three months ended September 30, 2000

| Three Month Periods Ended |       |  | Change |
|---------------------------|-------|--|--------|
| September 30,             |       |  |        |
| 2001                      | 2000  |  |        |
| ----                      | ----  |  | -----  |
| -----                     | ----- |  | -----  |

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

|  |              |              |               |
|--|--------------|--------------|---------------|
| Rental revenue                                   | \$ 2,697,223 | \$ 1,914,021 | \$ 783,202    |
|  | -----        | -----        | -----         |
| Property operating expenses-                     |              |              |               |
| Operating expenses                               | 687,590      | 557,756      | 129,834       |
| Real estate taxes                                | 220,080      | 162,223      | 57,857        |
| Management fees                                  | 137,807      | 81,826       | 55,981        |
| General and administrative                       | 162,985      | 135,222      | 27,763        |
| Severance expense                                | --           | 255,442      | (255,442)     |
| Interest   | 845,987      | 577,303      | 268,684       |
| Depreciation and amortization                    | 534,296      | 291,208      | 243,088       |
|  | -----        | -----        | -----         |
|  | 2,588,745    | 2,060,980    | 527,765       |
|  | -----        | -----        | -----         |
| Other Income-                                    |              |              |               |
| Interest income                                  | 71,184       | 18,082       | 53,102        |
| Equity in loss of unconsolidated affiliate       | --           | (19,424)     | 19,424        |
|  | -----        | -----        | -----         |
|  | 71,184       | (1,342)      | 72,526        |
|  | -----        | -----        | -----         |
| Income (loss) before gain on sale of real estate | 179,662      | (148,301)    | 327,963       |
|  | -----        | -----        | -----         |
| Gain on sale of real estate                      | --           | 2,556,839    | (2,556,839)   |
|  | -----        | -----        | -----         |
| Net Income                                       | \$ 179,662   | \$ 2,408,538 | \$(2,228,876) |
|  | =====        | =====        | =====         |

Rental Revenue

The increase in rental revenue is due primarily to the inclusion of the operations of the Sheridan Center office complex (acquired in August 2000) and Sheridan Plaza at Inverness, LLC (acquired in April 2001), offset by the exclusion of the operations of the four self-storage facilities (sold in August 2000) and the Giltedge office building (sold in June 2001).

Property Operating Expenses

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

General and Administrative

The increase in general and administrative expenses is due to the above-mentioned transactions.

Severance Expense

The severance expense recognized in 2000 was in accordance with a separation agreement between the Company and a former officer.

Interest Expense

The increase in interest expense is due to the increase in debt outstanding at September 30, 2001 by approximately 50% from the prior year. The effect of the increase in debt level is partially offset by a decrease in interest rates, which results in lower interest costs on the Company's floating rate debt.

Depreciation and Amortization

The increase in depreciation and amortization is due to the overall increase in

## Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

depreciable assets.

### Interest Income

Interest income increased due to higher outstanding cash balances in 2001 resulting from the Company's public offering of approximately 2.3 million shares of common stock, which was completed in August 2001.

### Equity in Loss of Unconsolidated Affiliate

The equity in losses of our unconsolidated affiliate recognized in 2000 represents the Company's share of the net loss of Sheridan Investments, LLC. The Company acquired its 9.639% interest in Sheridan Investments, LLC in September 2000 and then in 2001, acquired the remaining interest in this affiliate through the Sheridan Plaza transaction.

### Gain on Sale of Real Estate

The gain recognized in 2000 was a result of the sale of the four self-storage facilities.

Comparison of the nine months ended September 30, 2001 to the nine months ended September 30, 2000

|  | Nine Month Periods Ended<br>September 30, |              |                |
|--|---|--------------|----------------|
|  | 2001                                      | 2000         | Change         |
| Rental revenue                                   | \$ 7,496,114                              | \$ 5,271,534 | \$ 2,224,580   |
| Property operating expenses-                     |   |              |                |
| Operating expenses                               | 1,955,488                                 | 1,448,454    | 507,034        |
| Real estate taxes                                | 594,282                                   | 492,474      | 101,808        |
| Management fees                                  | 380,653                                   | 241,793      | 138,860        |
| General and administrative                       | 521,266                                   | 378,771      | 142,495        |
| Impairment of deferred rents receivable          | 326,113                                   | --           | 326,113        |
| Severance expense                                | --  | 255,442      | (255,442)      |
| Interest   | 2,336,038                                 | 1,532,063    | 803,975        |
| Depreciation and amortization                    | 1,667,362                                 | 860,865      | 806,497        |
|  | 7,781,202                                 | 5,209,862    | 2,571,340      |
| Other Income-                                    |   |              |                |
| Interest income                                  | 92,366                                    | 34,973       | 57,393         |
| Equity in loss of unconsolidated affiliate       | (10,843)                                  | (19,424)     | 8,581          |
|  | 81,523                                    | 15,549       | 65,974         |
| Income (loss) before gain on sale of real estate | (203,565)                                 | 77,221       | (280,786)      |
| Gain on sale of real estate                      | 1,143,698                                 | 2,556,839    | (1,413,141)    |
| Net Income                                       | \$ 940,133                                | \$ 2,634,060 | \$ (1,693,927) |

## Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

### Rental Revenue

The increase in rental revenue is due primarily to the inclusion of the operations of the Sheridan Center office complex (acquired in August 2000) and Sheridan Plaza at Inverness, LLC (acquired in April 2001), offset by the exclusion of the operations of the four self-storage facilities (sold in August 2000) and the Giltedge office building (sold in June 2001).

### Property Operating Expenses

Operating expenses, real estate taxes and management fees increased as a result of the previously mentioned transactions. Operating expenses also increased in 2001 due to planned maintenance projects and increased utility costs.

### General and Administrative

The increase in general and administrative expenses is primarily due to the previously mentioned transactions as well as costs related to the continued growth of the Company.

### Impairment of Deferred Rents Receivable

During the second quarter of 2001, the Company recorded an impairment of a deferred rents receivable from a significant tenant, Rhythms NetConnections, Inc., which filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The Company has subsequently reached an agreement with Rhythms to terminate its lease effective November 1, 2001 (see Liquidity and Capital Resources discussion).

### Severance Expense

The severance expense recognized in 2000 was in accordance with a separation agreement between the Company and a former officer.

### Interest Expense

The increase in interest expense is due to the increase in debt outstanding at September 30, 2001 by approximately 50% from the prior year. The effect of the increase in debt level is partially offset by a decrease in interest rates, which results in less interest on the Company's floating rate debt.

### Depreciation and Amortization

The increase in depreciation and amortization is due to the overall increase in depreciable assets due to the previously mentioned transactions and the continued redevelopment of Sheridan Center. The 2001 amount also includes the accelerated amortization of the Rhythms lease commission recorded in the second quarter of \$323,447.

### Interest Income

The increase in interest income is attributable to higher cash balances in 2001 due to the previously mentioned public offering of the Company's common stock.

### Equity in Loss of Unconsolidated Affiliate

The equity in losses of our unconsolidated affiliate recognized in 2000 represents the Company's share of the net loss of Sheridan Investments, LLC. The Company acquired its 9.639% interest in Sheridan Investments, LLC in September 2000 and then in 2001, acquired the remaining interest in this affiliate through the Sheridan Plaza transaction.

### Gain on Sale of Real Estate

The gains recognized in 2001 and 2000 were a result of the sales of the Giltedge office building and the four self-storage facilities, respectively.

# Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

## Liquidity And Capital Resources

### Liquidity

Net cash from operations for the nine months ended September 30, 2001 was approximately \$1.1 million and is the primary source of liquidity to fund distributions, debt service and capital expenditures. The Company also has available lines of credit to assist with such cash needs. In August 2001, The Company completed a public offering of common stock, which raised approximately \$11.0 million net of commissions and expenses. The proceeds are being used and are expected to continue to be used for property acquisitions, the payment of certain redevelopment costs at Sheridan Center, the repayment of debt and as working capital.

The Company has entered into two separate contracts to acquire two additional office properties within the next 60 days. Both contracts are subject to a number of contingencies and there is no assurance that either of these acquisitions will occur.

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

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

### Financing

Mortgage loans are collateralized by substantially all properties. The following table details the scheduled maturities of mortgages as of September 30, 2001:

|            |              |
|------------|--------------|
| 2001       | \$ 108,129   |
| 2002       | 5,514,609    |
| 2003       | 9,884,895    |
| 2004       | 450,074      |
| 2005       | 488,010      |
| Thereafter | 25,429,519   |
|            | -----        |
| Total      | \$41,875,236 |
|            | =====        |

The Company has a short-term revolving credit line from a bank in the amount of \$300,000 and a \$500,000 short-term unsecured line of credit with Sheridan Investments, LLC, a related party. At September 30, 2001, the Company did not have outstanding balances on either of these lines of credit.

### Rhythms

On August 2, 2001, Rhythms NetConnections, Inc. ("Rhythms"), the primary tenant in the Company's Panorama Falls building in Englewood, Colorado, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Effective November 1, 2001, the Company agreed to terminate its lease with Rhythms and apply the security deposit from Rhythms in the amount of \$335,000 against future lease payments. The rental revenue related to Rhythms was approximately \$574,000 and

## Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

\$480,000 for the nine months ended September 30, 2001 and the year ended December 31, 2000, which is approximately 8% and 7% of the Company's total rental revenue for the respective periods. The Company intends to sell part or all of the Panorama Falls property and has entered into a contract to sell 80% of the property. This contract is subject to a number of contingencies, including refinancing of the existing mortgage loan, and there is no assurance that these contingencies will be satisfied or that the interest will be sold.

15

### Inflation

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

### Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Exchange Act of 1934. Although the Company believes that the expectations reflected in the forward-looking statements and the assumptions upon which the forward-looking statements are based are reasonable, it can give no assurance that such expectations and assumptions will prove to have been correct. See the Company's Annual Report on Form 10-KSB/A-2 and the Company's Amendment No. 2 to Registration Statement on Form SB-2 filed on July 26, 2001 for additional statements concerning important factors, including occupancy and rental rates and operating costs that could cause actual results to differ materially from the Company's expectations.

## Part II. Other Information

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

- (a) On July 13, 2001, the Registrant filed a Current Report on Form 8-K describing the sale of its Wisconsin office building and the acquisition of a Colorado office complex.

### SIGNATURES

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

AMERIVEST PROPERTIES INC.

November 14, 2001

By: /s/ D. Scott Ikenberry

-----  
D. Scott Ikenberry  
Chief Financial Officer

16

16



