

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

AMERIVEST PROPERTIES INC
Form 10QSB
May 09, 2003

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, 2003.

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 100, Denver, Colorado

80222

(Address of principal executive offices)

(Zip Code)

(303) 297-1800

(Registrant'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 ☐ []

The number of shares of the issuer's common stock outstanding as of May 9, 2003 was 11,565,534.

Transitional Small Business Disclosure Format (check one): Yes ☐ [] No ☒ [X]

Table of Contents

Part I

Page No.

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Item 1.	Consolidated Financial Statements:	
	Consolidated Balance Sheets as of March 31, 2003	
	and December 31, 2002 (unaudited).....	3
	Consolidated Statements of Operations for the three-month periods	
	ended March 31, 2003 and 2002 (unaudited).....	4
	Consolidated Statement of Stockholders' Equity for the three-month period	
	ended March 31, 2003 (unaudited).....	5
	Consolidated Statements of Cash Flows for the three-month periods	
	ended March 31, 2003 and 2002 (unaudited).....	6
	Notes to Consolidated Financial Statements (unaudited).....	7
Item 2.	Management's Discussion and Analysis of	
	Financial Condition and Results of Operations.....	10
Item 3.	Controls and Procedures.....	14
Part II		
Item 1.	Legal Proceedings.....	15
Item 2.	Changes in Securities and Use of Proceeds.....	15
Item 6.	Exhibits and Reports on Form 8-K.....	15

2

AMERIVEST PROPERTIES INC. CONSOLIDATED BALANCE SHEETS (unaudited)

	March 31, 2003	December 2002
	-----	-----
ASSETS		
Investment in real estate-		
Land	\$ 23,080,999	\$ 20,730,
Buildings and improvements	140,034,051	124,861,
Furniture, fixtures and equipment	511,349	467,
Tenant improvements	3,323,229	2,969,
Tenant leasing commissions	2,878,005	2,339,
Less: accumulated depreciation and amortization	(7,732,884)	(6,383,
	-----	-----
Net investment in real estate	162,094,749	144,985,
Cash and cash equivalents	2,759,464	2,318,
Escrow deposits	2,888,241	2,335,
Investment in unconsolidated affiliate	1,387,879	1,390,
Due from related party	3,289,507	3,257,
Due from unconsolidated affiliate	215,267	217,
Accounts receivable	464,513	286,
Deferred rents receivable	845,898	671,
Deferred financing costs, net of accumulated amortization		
of \$242,892 and \$130,773, respectively	1,469,878	1,243,
Prepaid expenses and other assets	348,130	475,
	-----	-----

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Total assets	\$ 175,763,526	\$ 157,183,000
	=====	=====
LIABILITIES		
Mortgage loans and notes payable	\$ 122,959,470	\$ 106,094,000
Accounts payable and accrued expenses	2,394,191	2,384,000
Accrued real estate taxes	1,970,398	1,714,000
Prepaid rents, deferred revenue and security deposits	1,701,736	1,656,000
Dividends payable	1,500,553	1,437,000
	-----	-----
Total liabilities	130,526,348	113,287,000
	-----	-----
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 - 11,542,713 and 11,060,260 shares, respectively	11,543	11,060
Capital in excess of par value	57,683,967	55,247,000
Distributions in excess of accumulated earnings	(12,458,332)	(11,362,000)
	-----	-----
Total stockholders' equity	45,237,178	43,895,000
	-----	-----
Total liabilities and stockholders' equity	\$ 175,763,526	\$ 157,183,000
	=====	=====

See accompanying notes to consolidated financial statements.

3

AMERIVEST PROPERTIES INC. CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the Three- Month Periods Ended March 31,	
	2003	2002
	-----	-----
REAL ESTATE OPERATING REVENUE		
Rental revenue	\$ 6,814,528	\$ 3,626,052
REAL ESTATE OPERATING EXPENSES		
Property operating expenses:		
Operating expenses	1,635,478	886,095
Real estate taxes	771,761	367,023
Management fees	43,477	28,062
General and administrative expenses	837,080	352,308
Interest expense	1,756,270	898,356
Depreciation and amortization expense	1,360,713	684,930
	-----	-----
Total operating expenses	6,404,779	3,216,774
	-----	-----

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

OTHER INCOME/(LOSS)		
Interest income	5,817	2,081
Equity in loss of unconsolidated affiliate	(10,602)	(20,397)
	-----	-----
Total other income/(loss)	(4,785)	(18,316)
	-----	-----
NET INCOME	\$ 404,964	\$ 390,962
	=====	=====
EARNINGS PER SHARE		
Basic	\$ 0.04	\$ 0.06
	=====	=====
Diluted	\$ 0.04	\$ 0.06
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	11,100,292	6,696,961
	=====	=====
Diluted	11,203,104	6,863,423
	=====	=====

See accompanying notes to consolidated financial statements.

4

AMERIVEST PROPERTIES INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(unaudited)

	Common Stock		Capital in	Distributi
	Shares	Amount	Excess of	in Excess
	-----	-----	Par Value	Accumulate
	-----	-----	-----	Earnings
Balance at December 31, 2002	11,060,260	\$ 11,060	\$ 55,247,483	\$ (11,362,7
Issuance of common stock:				
Warrants exercised	452,000	452	2,259,548	--
Stock options exercised	8,000	8	45,592	--
Dividend Re-Investment Plan ("DRIP")	20,927	21	122,159	--
Company 401(k) plan common stock match	1,526	2	9,185	--
Dividends declared	--	--	--	(1,500,5
Net income	--	--	--	404,9
	-----	-----	-----	-----
Balance at March 31, 2003	11,542,713	\$ 11,543	\$ 57,683,967	\$ (12,458,3
	=====	=====	=====	=====

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

See accompanying notes to consolidated financial statements.

5

AMERIVEST PROPERTIES INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three-Month Periods March 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 404,964	\$ 3,117,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,360,713	6,111,000
Amortization of deferred financing costs	112,119	
Amortization of warrants	--	
Equity in loss of unconsolidated affiliate	10,602	
Common stock issued to the Company's 401(k) plan	9,187	
Changes in assets and liabilities:		
Accounts receivable	(177,822)	(2,111,000)
Deferred rents receivable	(174,161)	(1,111,000)
Prepaid expenses and other assets	127,745	(2,111,000)
Accounts payable and accrued expenses	9,571	7,111,000
Other accrued liabilities	301,033	(1,111,000)
Net cash flows provided by operating activities	1,983,951	1,311,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions and improvements of real estate	(18,320,401)	(1,011,000)
Leasing commissions paid	(149,734)	(1,111,000)
Net advances to unconsolidated affiliate	2,311	
Net cash flows used in investing activities	(18,467,824)	(1,011,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to mortgage loans and notes payable	17,000,000	3,111,000
Payments on mortgage loans and notes payable	(174,363)	(1,111,000)
Payment of deferred financing costs	(338,090)	(1,111,000)
Net proceeds from exercising of options and warrants	2,305,600	
Increase in escrow deposits	(552,722)	(1,111,000)
Dividends paid	(1,315,654)	(7,111,000)
Net cash flows provided by (used in) financing activities	16,924,771	(7,111,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	440,898	(4,011,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,318,566	1,111,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,759,464	\$ 6,111,000

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest during the period	\$ 1,394,058	\$ 8
	=====	=====

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Stock issued to the Dividend Re-Investment Plan ("DRIP")	\$ 122,180	\$
	=====	=====

See accompanying notes to consolidated financial statements.

6

AMERIVEST PROPERTIES INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2003 (unaudited)

1. Organization

AmeriVest Properties Inc. (the "Company") is incorporated under the laws of the State of Maryland and operates as a self-administered and self-managed real estate investment trust ("REIT"). The Company primarily invests in and operates commercial office buildings in selective markets and leases the commercial office buildings to small and medium size tenants. As of March 31, 2003, the Company owns and operates, through its wholly-owned subsidiaries, the following properties:

Property	Location
-----	-----
Southwest Gas	Phoenix, AZ
Chateau Plaza	Dallas, TX
Centerra	Denver, CO
Parkway Centre II	Plano, TX
Kellogg Building	Littleton, CO
Arrowhead Fountains	Peoria, AZ
AmeriVest Plaza at Inverness	Englewood, CO
Sheridan Center	Denver, CO
Keystone Office Park	Indianapolis, IN
Panorama Falls (a)	Englewood, CO
Bank of America Buildings (b)	Texas
State of Texas Buildings (c)	Texas

- (a) 20% of the property is owned by the Company and 80% of the property is owned by Freemark Abbey Panorama, LLC as a tenant in common with the Company.
- (b) These four buildings are leased approximately 63% to Bank of America. The buildings are located in Clifton, Georgetown, Henderson and Mineral Wells, Texas.
- (c) Eleven of these thirteen buildings are leased primarily to various agencies of the State of Texas. The buildings are located in Lubbock, El Paso (2), Clint, Temple, Bellville, Columbus, Hempstead, Mission, Arlington, Marshall, Amarillo and Paris, Texas.

2. Interim Financial Statements

The unaudited 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

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

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 filed with the Securities and Exchange Commission for the year ended December 31, 2002. The consolidated results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. These financial statements and notes should be read together with the financial statements and notes included in the Company's Form 10-KSB for the year ended December 31, 2002.

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

3. New Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The Company adopted SFAS No. 145 on January 1, 2003. SFAS No. 145 significantly limits the treatment of losses associated with early extinguishment of debt as an extraordinary item. In accordance with SFAS No. 145, early extinguishments no longer qualify for extraordinary item treatment. The Company's adoption of SFAS No. 145 did not have a material impact on its financial position, results of operations or cash flows.

7

In July 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." The Company adopted SFAS No. 146 on January 1, 2003. SFAS No. 146 requires that certain expenses associated with restructuring charges be accrued as liabilities in the period in which the liability is incurred. The Company's adoption of SFAS No. 146 did not have a material impact on its financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The Company's adoption of Interpretation No. 45 did not have a material impact on its financial position, results of operations or cash flows.

In December 2002, the Company adopted SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." The Company's adoption of SFAS No. 148 did not have a material impact on its financial position, results of operations or cash flows.

The Company applies Accounting Principles Board ("APB") Opinion No. 25 and related interpretations in accounting for its stock option plan. Accordingly, the Company does not recognize compensation cost for options granted to employees whose exercise price is equal to or exceeds the fair value of the underlying stock as of the grant date and which qualify for fixed plan treatment.

Options and warrants issued to non-employees in exchange for goods or services are accounted for based on the fair value of the equity instruments issued. The measurement date is considered to be the issuance date, or if there are performance vesting provisions, when earned.

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

The Company has adopted the disclosure-only provisions of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date consistent with the provisions of SFAS No. 148, the Company's net income and net income per share for the three-month periods ended March 31, 2003 and 2002 would have been changed to the pro forma amounts indicated below:

	For the Three- Month Periods Ended March 31,	
	2003	2002
Net income - as reported	\$ 404,964	\$ 390,962
Total stock-based compensation expense based on fair value	(23,724)	(3,377)
Net income - pro forma	\$ 381,240	\$ 387,585
Net income per basic share - as reported	\$ 0.04	\$ 0.06
Net income per diluted share - as reported	\$ 0.04	\$ 0.06
Net income per basic share - pro forma	\$ 0.03	\$ 0.06
Net income per diluted share - pro forma	\$ 0.03	\$ 0.06

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants: dividend yield of 8.5% to 11.3%, expected volatility of 25% to 30%, discount rate of 2.9% to 6.4%, and expected option lives of 5 years.

8

In January 2003, the Company adopted Interpretation No. 46 "Consolidation of Variable Interest Entities." This Interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and requires the consolidation of results of variable interest entities in which the Company has a majority variable interest. The Company's adoption of Interpretation No. 46 did not have a material impact on its financial position, results of operations or cash flows.

4. Acquisitions

On February 6, 2003, the Company acquired the Southwest Gas Building. The Southwest Gas Building is located in Phoenix, Arizona and contains 147,660 rentable square feet on 7.38 acres of land. The purchase price for the Southwest Gas Building was \$17,000,000, which was paid with \$11,900,000 from a revolving credit facility with Fleet National Bank and \$5,100,000 from a short-term loan also from Fleet National Bank.

5. Mortgage Loans and Notes Payable

On February 6, 2003, the Company increased its revolving line of credit with Fleet National Bank from \$30,000,000 to \$42,000,000. At March 31, 2003, \$40,357,660 was outstanding on this facility. Outstanding balances on this

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

facility continue to bear interest at LIBOR plus 275 basis points and are due on November 12, 2005. The Company also obtained a \$5,100,000 short-term loan from Fleet National Bank. This loan bears interest at LIBOR plus 500 basis points and is due on August 6, 2003. Proceeds from the revolving credit facility and the short-term loan were used to acquire the Southwest Gas Building.

9

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 this Form 10-QSB and elsewhere.

Results Of Operations

Comparison of the three-month periods ended March 31, 2003 and 2002:

	Three-Month Periods Ended March 31,		
	2003	2002	Change
Rental revenue	\$ 6,814,528	\$ 3,626,052	\$ 3,188,476
Property operating expenses:			
Operating expenses	1,635,478	886,095	749,383
Real estate taxes	771,761	367,023	404,738
Management fees	43,477	28,062	15,415
General and administrative expenses	837,080	352,308	484,772
Interest expense	1,756,270	898,356	857,914
Depreciation and amortization expense	1,360,713	684,930	675,783
Total operating expenses	6,404,779	3,216,774	3,188,005
Other income/(loss)			
Interest income	5,817	2,081	3,736
Equity in loss of unconsolidated affiliate	(10,602)	(20,397)	9,795
Total other income/(loss)	(4,785)	(18,316)	13,531
Net income	\$ 404,964	\$ 390,962	\$ 14,002

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Rental revenue

The increase in rental revenue is primarily due to the inclusion of the operations of the late-2002 and early-2003 property acquisitions, including Parkway Centre II (September 2002), Centerra (November 2002), Chateau Plaza (November 2002) and the Southwest Gas Building (February 2003).

Property operating expenses

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

Management fees are paid to third-party providers for the property management of Parkway Centre II, the Bank of America Buildings and the State of Texas Buildings. The increase in management fees is due to the acquisition of Parkway Centre II.

General and administrative expenses

The increase in general and administrative expenses is primarily due to the termination of the advisory agreement with the Company's former advisor, Sheridan Realty Advisors, effective November 1, 2002 whereby all of the remaining employees of Sheridan Realty Advisors became employees of the Company. Additionally, approximately \$200,000 in legal, accounting, investor relations, shareholder services and travel expenses related to the preparation and mailing of the 2002 Annual Report and proxy statement and first quarter investor relations initiatives. Such expenses increased over the prior year quarter due to a significantly larger shareholder base. Also, during the quarter the Company began to accrue approximately \$36,000 per quarter for non-cash long-term stock compensation for certain of the Company's executive officers as provided by the Long-Term Incentive Plan. This plan is being presented for shareholder approval at this year's annual meeting in late-May. It is anticipated that general and administrative expenses will continue to increase as the Company acquires additional assets.

10

Interest expense

The increase in interest expense is due to the increase in the outstanding mortgage debt resulting from the above-mentioned transactions.

Depreciation and amortization expense

The increase in depreciation and amortization expense is due to the overall increase in depreciable assets resulting from the above-mentioned transactions.

Interest income

Interest income increased due to higher average outstanding cash balances in interest bearing accounts in 2003.

Equity in loss of unconsolidated affiliate

The equity in loss of unconsolidated affiliate represents the Company's share of the net loss of Panorama Falls. The Company sold 80% of its interest in Panorama Falls in December 2001, retaining its current 20% interest. The net loss of Panorama Falls has decreased due to improved property operations resulting from the lease up of the property from approximately 16% at the time of sale to approximately 71% at March 31, 2003.

Liquidity And Capital Resources

Operating Activities

Net cash flows from operations were approximately \$1,984,000 for the three-month period ended March 31, 2003, an increase of approximately \$663,000 from the prior year period. This increase is primarily due to the inclusion of

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

the operations of the late-2002 and early-2003 property acquisitions. This is the primary source to fund dividend payments, debt service and capital expenditures. Management believes that the cash flow from the Company's existing properties will be sufficient to meet its working capital needs for this year and beyond.

Investing and Financing Activities

Net cash flows used in investing activities were approximately \$18,468,000 for the three-month period ended March 31, 2003, of which \$17,000,000 represents the acquisition of the Southwest Gas Building. The remainder represents recurring capital improvement, tenant improvement and leasing commission costs.

Net cash flows from financing activities were approximately \$16,925,000 for the three-month period ended March 31, 2003, of which \$17,000,000 represents the loan proceeds used to acquire the Southwest Gas Building.

The Company desires to acquire additional properties. In order to do so, it will need to raise additional debt and/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 to acquire additional properties, of which there is no assurance, could adversely affect the amount of cash available to pay dividends to stockholders.

11

Scheduled Debt Maturities and Interest Rate Information

The following table details the scheduled maturities of mortgage loans and notes payable outstanding as of March 31, 2003:

2003	\$ 9,899,292
2004	17,931,655
2005	41,364,912
2006	15,139,761
2007	969,752
Thereafter	37,654,098

Total	\$ 122,959,470
	=====

Included in the 2003 maturities is the outstanding balance on the mortgage loan on Panorama Falls in the amount of \$4,111,884. Although the Company sold 80% of its interest in the property, the Company has retained 100% of the loan balance on its balance sheet due to its continued obligation. As an offset, the Company has recorded a receivable for 80% of this amount as due from related party, with the remaining 20% included in the investment in unconsolidated affiliate balance.

As of March 31, 2003, approximately 46% of the total mortgage loans outstanding (including the Panorama Falls loan) are fixed rate loans with a weighted-average interest rate of approximately 7.7% and 54% are variable rate loans with a weighted-average interest rate of approximately 4.1%. The decrease in the proportion of fixed rate debt from 53% at December 31, 2002 to 46% at March 31, 2003 is attributable to the acquisition of the Southwest Gas Building using variable rate debt. The Company intends to refinance some of its variable rate debt to fixed rate debt upon stabilization of the underlying mortgaged properties.

New Accounting Pronouncements

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The Company adopted SFAS No. 145 on January 1, 2003. SFAS No. 145 significantly limits the treatment of losses associated with early extinguishment of debt as an extraordinary item. In accordance with SFAS No. 145, early extinguishments no longer qualify for extraordinary item treatment. The Company's adoption of SFAS No. 145 did not have a material impact on its financial position, results of operations or cash flows.

In July 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." The Company adopted SFAS No. 146 on January 1, 2003. SFAS No. 146 requires that certain expenses associated with restructuring charges be accrued as liabilities in the period in which the liability is incurred. The Company's adoption of SFAS No. 146 did not have a material impact on its financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The Company's adoption of Interpretation No. 45 did not have a material impact on its financial position, results of operations or cash flows.

In December 2002, the Company adopted SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." The Company's adoption of SFAS No. 148 did not have a material impact on its financial position, results of operations or cash flows.

In January 2003, the Company adopted Interpretation No. 46 "Consolidation of Variable Interest Entities." This Interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and requires the consolidation of results of variable interest entities in which the Company has a majority variable interest. The Company's adoption of Interpretation No. 46 did not have a material impact on its financial position, results of operations or cash flows.

12

Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements require management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, which would potentially result in materially different results under different assumptions and conditions. The Company believes that its critical accounting policies are limited to those described below.

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Investment in Real Estate

Upon acquisition, the purchase price of a property is allocated to land, building, leasing commissions and other intangible assets and associated liabilities as required by SFAS No. 141 "Business Combinations." The allocation to land is based on an estimate of its fair value based on all available information including appraisals. The allocation to leasing commissions, as required by SFAS No. 141, represents the value associated with the in-place leases, including leasing commission, legal and other related costs. Also required by SFAS No. 141, is the creation of an intangible asset or liability resulting from in-place leases being above or below the market rental rates on the date of acquisition. This asset or liability is amortized over the life of the remaining in-place leases as an adjustment to revenue.

Investment in real estate is stated at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives as follows:

Description	Estimated Useful Lives
-----	-----
Land	Not depreciated
Buildings and improvements	20 to 40 years
Furniture, fixtures and equipment	5 to 7 years
Tenant improvements and leasing commissions	Term of related lease

Maintenance and repairs are expensed as incurred and improvements are capitalized. The cost of assets sold or retired and the related accumulated depreciation and/or amortization are removed from the accounts and the resulting gain or loss is reflected in operations in the period in which such sale or retirement occurs. Allocating the purchase price of a property to the different components of investment in real estate, determining whether expenditures meet the criteria for capitalization and assigning depreciable lives is considered to be critical because it requires management to exercise significant judgment.

Valuation of Real Estate Assets

Long-lived assets to be held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company continually evaluates the recoverability of its long-lived assets based on estimated future cash flows from and the estimated liquidation value of such long-lived assets, and provides for impairment if such undiscounted cash flows are insufficient to recover the carrying amount of the long-lived asset. Valuation of real estate assets is considered to be critical because the evaluation of impairment and the determination of fair values involve management's assumptions relating to future economic events that could materially affect the determination of the fair value, and therefore the carrying value of real estate.

Revenue Recognition

Certain leases provide for tenant occupancy during periods for which no rent is due or where minimum rent payments increase during the term of the lease. Rental revenue is recorded for the full term of each lease on a straight-line basis. Accordingly, the Company records a receivable from tenants for rents that it expects to collect over the remaining lease term as deferred rents receivable. When the Company acquires a property, the term of the existing leases is considered to commence as of the acquisition date for the purposes of this calculation. Revenue recognition is considered to be critical because the evaluation of the realizability of such deferred rents receivable involves management's assumptions relating to such tenant's viability.

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

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

Certain statements in this Form 10-QSB that are not historical facts are "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the Company's current expectations, beliefs, assumptions, estimates and projections about the industry and markets in which the Company operates. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. Information concerning expected investment balances, expected funding sources, planned investments, forecasted dates and revenue and expense growth assumptions are examples of forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond the Company's control. Therefore, actual outcomes and results may differ materially from what is expressed, forecasted or implied in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

The Company's operating results depend primarily on income from its properties, which are substantially influenced by supply and demand for such properties, operating expense levels, property level operations and the pace and price at which the Company can develop, acquire or dispose of such properties. Capital and credit market conditions, which affect the Company's cost of capital, also influence operating results. See the Company's 2002 Form 10-KSB "Item 1. Business" for a more complete discussion of risk factors that could impact the Company's future financial performance.

Item 3. Controls and Procedures

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with participation of AmeriVest's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-14(c) and 15-14(c) under the Securities Exchange Act of 1934). Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures are effective to ensure that information required to be disclosed by AmeriVest in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, there were no significant changes in AmeriVest's internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

14

Part II. Other Information

Item 1. Legal Proceedings

The following lawsuits were previously reported in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002, filed with the

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Securities and Exchange Commission on March 31, 2003:

- o Laura Smith v. Innerarity Austin, Inc. and AmeriVest Properties Inc. - no change
- o Irma Carranza v. AmeriVest Properties Texas Inc. - no change
- o Jane Doe v. AmeriVest Broadway Properties Inc. - no change

The Company has asserted a general denial of the material allegations in all lawsuits and the Company's insurance companies are defending the Company in these lawsuits and are responsible for all costs. The Company believes that these lawsuits will not be adversely determined and/or will not have any effect on the Company's business and financial condition.

Item 2. Changes in Securities and Use of Proceeds

None

Item 6. Exhibits And Reports On Form 8-K

(a) Exhibits

99.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

-
1. Current Report on Form 8-K dated December 23, 2002 (filed January 7, 2003). This Current Report included disclosures under "Item 5. Other Events and Required FD Disclosure" and "Item 7. Financial Statements and Exhibits".
 2. Current Report on Form 8-K dated February 6, 2003 (filed February 21, 2003). This Current Report included disclosures under "Item 2. Acquisition or Disposition of Assets" and "Item 7. Financial Statements and Exhibits". The financial statements were included in an amendment to this Current Report, described below.
 3. Current Report on Form 8-K/A dated February 6, 2003 (filed April 22, 2003). This Current Report consisted of an amendment to the Current Report on Form 8-K dated February 6, 2003 filed on February 21, 2003 and included disclosures under "Item 7. Financial Statements and Exhibits". The financial statements included were an Independent Auditors' Report; Statement of Revenue and Certain Expenses for the year ended December 31, 2002; Notes to Statement of Revenue and Certain Expenses; Pro Forma Consolidated Balance Sheet as of December 31, 2002 (unaudited); Pro Forma Consolidated Statement of Operations (unaudited) for the year ended December 31, 2002; Notes to Pro Forma Consolidated Financial Statements (unaudited); Statement of Estimated Taxable Operating Results and Cash to be Made Available by Operations for the Year ended December 31, 2002 (unaudited); and Note to Statement of Estimated Taxable Operating Results and Cash to be Made Available by Operations.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERIVEST PROPERTIES INC.

May 9, 2003

By: /s/ D. Scott Ikenberry

D. Scott Ikenberry
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

16

Certifications

I, William T. Atkins, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of AmeriVest Properties Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 9, 2003

By: /s/ William T. Atkins

William T. Atkins
Chief Executive Officer

17

I, D. Scott Ikenberry, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of AmeriVest Properties Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 9, 2003

By: /s/ D. Scott Ikenberry

D. Scott Ikenberry
Chief Financial Officer