KOGER EQUITY INC
Form 8-K
January 06, 2004

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

FORM 8-K

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

Date of Report (Date of earliest event reported): January 6, 2004

KOGER EQUITY, INC.
(Exact name of registrant as specified in its charter)

FLORIDA
(State or other jurisdiction of incorporation)

1-9997	59-2898045
(Commission File Number)	(IRS Employer Identification No.)

225 NE Mizner Boulevard, Suite 200 Boca Raton, Florida	33432
(Address of principal executive offices)	(Zip Code)

(561) 395-9666
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

Item 2. Acquisition or Disposition of Assets.

On January 6, 2004, the Company entered into a definitive purchase and sale agreement to acquire the Atlantic Center Plaza ("ACP") in Atlanta, Georgia for approximately $116.5 million and closing costs. ACP is a 23-floor office building containing approximately 502,000 square feet of rentable space that was constructed in 2001. ACP is immediately adjacent to Interstate 75, located at the intersection of West Peachtree Street and Fourteenth Street in the Midtown submarket. In connection with the transaction, the Company will assume an $86.0 million note payable that is secured by the property. In addition, it is estimated that approximately $32.8 million of the funds required for this transaction will be drawn from proceeds from the Company's recently announced common stock offering. ACP will be acquired from Atlantic Center Plaza, LLC, an unrelated third party.

The Company considered various factors in determining the price to be paid for this acquisition. Factors considered included the nature of the tenants and terms of leases in place, opportunities for alternative and new tenancies, historical and expected cash flows, occupancy rates, current operating costs on ACP and anticipated changes therein under Company ownership, the physical condition and location of ACP, the need for capital improvements, the anticipated effect on the Company's financial results, and other factors. The Company took into consideration capitalization rates at which it believed other comparable properties had recently sold. However, the Company determined the price it was willing to pay primarily on the factors discussed above relating to ACP itself and its fit into the Company's existing operations. No separate independent appraisal was obtained in connection with this acquisition. The Company, after investigation, is not aware of any material factors, other than those discussed above, that would cause the financial information reported not to be necessarily indicative of future operating results. The Company intends to lease office space in ACP to tenants as it does the other office buildings contained in its portfolio. ACP will be managed and leased by a third party management company.

Item 7. Financial Statements and Exhibits

Listed below are the financial statements, pro forma financial information and exhibits, if any, filed as part of this report.

(a) Financial Statements of Real Estate Acquired.

Statement of Revenues and Certain Expenses of ACP for the year ended December 31, 2002.

(b) Pro Forma Financial Statements

The following unaudited pro forma financial statements set forth (i) the pro forma balance sheet as of September 30, 2003, as if the acquisition occurred on September 30, 2003, (ii) the pro forma statement of operations for the year ended December 31, 2002, as if the acquisition occurred on January 1, 2002, and (iii) the pro forma statement of operations for the nine months ended September 30, 2003, as if the acquisition occurred on January 1, 2003. The pro forma financial statements are based upon assumptions contained in the notes thereto and should be read in conjunction with such notes.

The following unaudited pro forma financial statements may not necessarily reflect the results of operations or financial position of the Company which would have actually resulted had the acquisition occurred as of the date and for the periods indicated, nor should they be taken as indicative of the future results of operations or the future financial position of the Company. Differences would result from various factors, including but not limited to changes in ACP's occupancy, rental rates and rental expenses.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Koger Equity, Inc.
Boca Raton, Florida:

We have audited the accompanying statement of revenues and certain expenses of Atlantic Center Plaza ("ACP") for the year ended December 31, 2002. This financial statement is the responsibility of ACP's former management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenues and certain expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion in the filing of a Form 8-K of Koger Equity, Inc. dated January 6, 2004 as a result of the acquisition of ACP). Material amounts, described in Note 1 to the statement of revenues and certain expenses, that would not be comparable to those resulting from future operations of ACP are excluded and, accordingly, the statement is not intended to be a complete presentation of ACP's revenues and expenses.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues and certain expenses of ACP for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Certified Public Accountants
West Palm Beach, Florida
January 6, 2004

ATLANTIC CENTER PLAZA
STATEMENT OF REVENUES AND CERTAIN EXPENSES
YEAR ENDED DECEMBER 31, 2002

REVENUES:	
Base rental income	$ 7,079,672
Operating expense recovery	130,102
Parking, antennae, and other income	215,749
Total revenues	7,425,523
CERTAIN EXPENSES:	
Properties operating	1,672,096
Real estate and other taxes	925,306

Management costs and fees	290,727
Total certain expenses	2,888,129
REVENUES IN EXCESS OF CERTAIN EXPENSES	$ 4,537,394

See notes to statement of revenues and certain expenses.

ATLANTIC CENTER PLAZA
NOTES TO STATEMENT OF REVENUES AND CERTAIN EXPENSES
YEAR ENDED DECEMBER 31, 2002

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Atlantic Center Plaza ("ACP"), a 23-floor office building containing approximately 502,000 square feet of rentable space and located in Atlanta, Georgia, will be acquired from Atlantic Center Plaza, LLC, an unrelated third party, in January, 2004. The statement of revenues and certain expenses includes information related to the operations of ACP for the year ended December 31, 2002 as recorded by ACP's previous owners, subject to the adjustments described below.

The accompanying historical financial statement information is presented in conformity with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the financial statement is not representative of the actual operations for the year ended December 31, 2002 as certain expenses, which may not be comparable to the expenses expected to be incurred in the future operations of ACP, have been excluded. Expenses excluded consist of interest, depreciation and amortization, and other costs not directly related to the future operations of ACP.

Management's Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Rental Income - Rental income is recognized on a straight-line basis over the terms of the related leases.

Properties Operating Expenses - Properties operating expenses consist primarily of utilities, insurance, repairs and maintenance, security and safety, cleaning, bad debts and other administrative expenses.

Management Costs and Fees - At the date of acquisition, ACP was being managed by a third party manager for a management fee of approximately three percent of rental and other revenues plus reimbursement of personnel and other costs related to management of ACP.

ATLANTIC CENTER PLAZA
NOTES TO STATEMENT OF REVENUES AND CERTAIN EXPENSES
YEAR ENDED DECEMBER 31, 2002

2. OPERATING LEASES

Operating revenue is principally obtained from business tenant rentals under operating leases. Future minimum base rental income under all tenant operating leases as of December 31, 2002 are as follows:

Year ending December 31,	Amount
2003	$ 9,692,675
2004	11,051,225
2005	11,822,370
2006	11,670,803
2007	11,305,484
Thereafter	62,699,354
Total	$118,241,911

For the year ended December 31, 2002, a law firm known as Alston & Bird contributed approximately 59% of ACP's base rental income.

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KOGER EQUITY, INC.
UNAUDITED PRO FORMA BALANCE SHEET
September 30, 2003
(In Thousands)

	Historical 9/30/2003	Pro Forma Adjustments	
ASSETS			
Operating properties:			
Real estate	$ 930,841	$ 118,836	(a
Furniture and equipment	3,533		
Accumulated depreciation	(171,697)		
Operating properties - net	762,677	118,836	
Undeveloped land held for investment	9,995		
Undeveloped land held for sale, net	3,041		
Cash and cash equivalents	13,302		
Restricted cash	14,520		
Accounts receivable, net	14,575		
Cost in excess of fair value of net assets acquired - net	595		
Other assets	17,464		
TOTAL ASSETS	$ 836,169	$ 118,836	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Mortgages and loans payable	$ 394,128	$ 86,000	(a
Accounts payable	3,764		
Accrued real estate taxes payable	9,893		
Accrued liabilities - other	10,846		
Dividends payable	7,840		
Advance rents and security deposits	5,343		

Total Liabilities	431,814	86,000	
Shareholders' Equity:			
Preferred stock	30		
Common stock	299	16	(b
Capital in excess of par value	544,689	32,820	(b
Notes receivable from stock sales	(5,266)		
Accumulated other comprehensive loss	(212)		
Retained earnings (deficit)	(3,566)		
Treasury stock, at cost	(131,619)		
Total Shareholders' Equity	404,355	32,836	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 836,169	$ 118,836	

See accompanying notes to unaudited pro forma financial statements.

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KOGER EQUITY, INC.
UNAUDITED PRO FORMA STATEMENT OF OPERATIONS
For the year ended December 31, 2002
(In Thousands except per Share Data)

	Historical 2002	Pro Forma Adjustments	
REVENUES			
Rental and other rental services	$ 126,404	$ 7,425	(a)
Management fees	3,347		
Interest	405		
Total revenues	130,156	7,425	
EXPENSES			
Properties operations	46,235	2,888	(a)
Depreciation and amortization	27,908	2,834	(b)
Mortgage and loan interest	25,145	3,372	(c)
General and administrative	11,381	479	(a)
Direct cost of management fees	3,335		
Other	143		
Total expenses	114,147	9,573	
INCOME BEFORE GAIN ON SALE OF ASSETS, INCOME TAXES AND MINORITY INTEREST	16,009	(2,148)	
Gain on sale of assets	21		
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	16,030	(2,148)	
Income tax (benefit) provision	(413)		
INCOME BEFORE MINORITY INTEREST	16,443	(2,148)	
Minority interest	(20)		
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 16,423	$ (2,148)	

EARNINGS PER COMMON SHARE:		
Basic	$ .77	
Diluted	$ .77	
WEIGHTED AVERAGE COMMON SHARES:		
Basic	21,269	1,561
Diluted	21,378	1,561

See accompanying notes to unaudited pro forma financial statements.

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KOGER EQUITY, INC.
UNAUDITED PRO FORMA STATEMENT OF OPERATIONS
For the nine months ended September 30, 2003
(In Thousands except per Share Data)

	Historical 2003	Pro Forma Adjustments	
REVENUES			
Rental and other rental services	$ 107,407	$ 7,051	(a
Management fees	331		
Interest	184		
Total revenues	107,922	7,051	
EXPENSES			
Property operations	41,949	2,864	(a
Depreciation and amortization	24,537	2,125	(b
Mortgage and loan interest	22,059	2,528	(c
General and administrative	8,415	325	(a
Direct cost of management fees	88		
Other	103		
Total expenses	97,151	7,842	
INCOME BEFORE GAIN ON SALE OF ASSETS, INCOME TAXES AND MINORITY INTEREST	10,771	(791)	
Gain on sale of assets	589		
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	11,360	(791)	
Income tax (benefit) provision	(22)		
INCOME BEFORE MINORITY INTEREST	11,382	(791)	
Minority interest			
NET INCOME	11,382	(791)	
Dividends on Preferred Stock	(371)		

NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	11,011	$ (791)
EARNINGS PER COMMON SHARE:		
Basic	$ .52	
Diluted	$ .52	
WEIGHTED AVERAGE COMMON SHARES:		
Basic	21,314	1,561
Diluted	21,377	1,561

See accompanying notes to unaudited pro forma financial statements.

KOGER EQUITY, INC.
NOTES TO UNAUDITED PRO FORMA FINANCIAL STATEMENTS

1. Basis of Presentation

Atlantic Center Plaza ("ACP"), a 23-floor office building containing approximately 502,000 square feet of rentable space and located in Atlanta, Georgia, will be acquired from Atlantic Center Plaza, LLC, an unrelated third party, in January 2004. The statement of revenues and certain expenses includes information related to the operations of ACP for the year ended December 31, 2002 as recorded by ACP's previous owner, subject to the adjustments described below.

2. Unaudited Pro Forma Balance Sheet

The unaudited pro forma balance sheet as of September 30, 2003 is based on the historical balance sheet for the Company presented in its Quarterly Report on Form 10-Q for the period ended September 30, 2003. The unaudited pro forma balance sheet includes adjustments assuming this acquisition occurred as of September 30, 2003. Significant pro forma adjustments in the unaudited pro forma balance sheet include the following:

(a) The Company intends to purchase ACP, located in Atlanta, Georgia, for approximately $116.5 million and closing costs. The funds required for this acquisition will be drawn from the assumption of an $86.0 million mortgage secured by the Property and $32.8 million from the Company's recently announced common stock offering. The acquisition is reflected in rental properties in the pro forma balance sheet. A portion of the purchase price will ultimately be recorded as an intangible asset for the fair value of the in-place leases. The Company has not completed its valuation of the in-place leases.

(b) Reflects a portion of the proceeds from the proposed issuance of common stock used to purchase ACP.

KOGER EQUITY, INC.
NOTES TO UNAUDITED PRO FORMA FINANCIAL STATEMENTS (continued)

3. Unaudited Pro Forma Statements of Operations

The unaudited pro forma statement of operations for the year ended December 31, 2002 includes adjustments assuming that the acquisition of ACP occurred as of January 1, 2002, and is based on the historical statement of operations for the Company presented in its Annual Report on Form 10-K for the year ended December 31, 2002. The unaudited pro forma statements of operations for the nine months ended September 30, 2003, include adjustments assuming that the acquisition of ACP occurred as of January 1, 2003 and is based on the historical statement of operations for the Company presented in its Quarterly Report on Form 10-Q for the period ended September 30, 2003. Significant pro forma adjustments in the unaudited pro forma statements of operations include the following:

(a) Adjustment required for the historical rental revenues and operating expenses for ACP. Operating expenses include management costs and fees calculated using the historical management costs of ACP. ACP was managed by a third party manager for a management fee of approximately three percent of rental and other revenues plus reimbursement of personnel and other costs related to management of ACP. As of the year ended December 31, 2002 and the nine months ended September 30, 2003, ACP had occupancy rates of 68% and 79%, respectively.

(b) Adjustment required to reflect depreciation on ACP, based on the total cost of the acquisition. The Company uses the straight-line method for depreciation and amortization using an estimated life of 39 years for ACP. As discussed in Note (a) to the pro forma balance sheet, the Company has not completed the valuation of the in-place leases. The amortization of the in-place lease value is not expected to have a material impact on the pro forma statements of operations.

(c) Adjustment required to reflect interest expense related to the amounts drawn on the ACP's mortgage ($86 million). The estimated average interest rate on the ACP's mortgage was 2.9 percent on the first $76 million and 7.3 percent on the last $10 million.

KOGER EQUITY, INC.
UNAUDITED STATEMENT OF ESTIMATED TAXABLE OPERATING RESULTS
AND ESTIMATED CASH TO BE MADE AVAILABLE BY OPERATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2002
(In Thousands)

Revenues
Rental and other rental services
Management fees
Interest

Total revenues

Expenses
Properties operations
Depreciation and amortization
Mortgage and loan interest
General and administrative
Direct cost of management fees
Other
Compensation - exercise of stock options

Total expenses

Estimated Taxable Operating Income
Add Back: Depreciation and Amortization

Estimated Cash To Be Made Available By Operations

Note 1: This statement of estimated taxable operating results and estimated cash to be made available by operations is an estimate of operating results of the Company for the twelve month period ended December 31, 2002 assuming that the acquisition of Atlantic Center Plaza occurred on the first day of the twelve month period. However, this statement does not purport to reflect actual taxable results for any period.

Note 2: Tax depreciation was determined based upon the actual tax depreciation for the Company's existing portfolio and based upon the assumption that the acquisition of Atlantic Center Plaza occurred on the first day of the twelve month period.

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(c) Exhibits

EXHIBIT INDEX

The following designated exhibits are filed herewith:

Exhibit Number	Description of Exhibit
23	Consent of Deloitte and Touche LLP
99	Koger Equity, Inc. News Release dated January 6, 2004.

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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.

KOGER EQUITY, INC.

Dated: January 6, 2004	By:	/s/ Steven A. Abney
		Steven A. Abney
	Title:	Vice President, Finance and Chief Accounting Officer

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Exhibit 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-55179 of Koger Equity, Inc. on Form S-3, Registration Statement No. 33-54617 of Koger Equity , Inc. on Form S-8, Registration Statement No. 333-20975 of Koger Equity, Inc. on Form S-3, Registration Statement No. 333-23429 of Koger Equity, Inc. on Form S-8, Registration Statement No. 333-37919 of Koger Equity, Inc. on Form S-3, Registration Statement No. 333-33388 of Koger Equity, Inc. on Form S-8 and Registration Statement No. 333-38712 of Koger Equity, Inc. on Form S-8 of our report dated January 6, 2004 on the statement of revenues and certain expenses of Atlantic Center Plaza for the year ended December 31, 2002 appearing in this Current Report on Form 8-K of Koger Equity, Inc., dated January 6, 2004.

DELOITTE & TOUCHE LLP

West Palm Beach, Florida
January 6, 2004

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