

Edgar Filing: AMERIVEST PROPERTIES INC - Form 10QSB

AMERIVEST PROPERTIES INC  
Form 10QSB  
November 13, 2002

UNITED STATES  
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, 2002.

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 (I.R.S. Employer Identification No.)  
incorporation or organization)

1780 South Bellaire Street 80222  
Suite 515, Denver, Colorado  
(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  No

As of November 13, 2002 the Registrant had outstanding 10,980,834 shares of common stock, par value \$.001.

Transitional Small Business Disclosure Format (check one):

Yes  No

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### AMERIVEST PROPERTIES INC. CONSOLIDATED BALANCE SHEETS

	September 30, 2002	December 31, 2001
	-----	-----
	(unaudited)	
<b>ASSETS</b>		
Investment in real estate-		
Land	\$ 18,434,269	\$ 14,137,89
Buildings and improvements	87,806,952	67,433,07
Furniture, fixtures and equipment	328,747	237,44
Tenant improvements	2,561,879	1,788,94
Tenant leasing commissions	421,677	302,33
Less: accumulated depreciation and amortization	(5,203,317)	(3,058,66
	-----	-----
Net investment in real estate	104,350,207	80,841,02
 Cash and cash equivalents	 14,383,104	 1,119,35
Escrow deposits	1,755,049	673,21
Investment in unconsolidated affiliate	1,263,275	1,243,29
Due from related party	2,724,293	2,403,59
Due from unconsolidated affiliate	782,397	94,47
Accounts receivable	191,111	382,68
Deferred rents receivable	571,390	374,39
Deferred financing costs, net of accumulated amortization of \$243,382 and \$118,751, respectively	541,695	597,88
Prepaid expenses and other assets	1,442,034	272,56

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	-----	-----
Total assets	\$ 128,004,555	\$ 88,002,48
	=====	=====
LIABILITIES		
Mortgage loans and notes payable	\$ 76,452,290	\$ 58,408,42
Accounts payable and accrued expenses	1,253,611	819,80
Due to related party	105,926	494,53
Accrued real estate taxes	1,453,284	1,564,34
Prepaid rents and security deposits	1,308,617	883,11
Dividends payable	1,426,964	835,28
	-----	-----
Total liabilities	82,000,692	63,005,50
	-----	-----
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 - 10,976,646 and 6,682,259 shares, respectively	10,977	6,68
Capital in excess of par value	54,833,805	31,132,65
Distributions in excess of accumulated earnings	(8,840,919)	(6,142,34
	-----	-----
Total stockholders' equity	46,003,863	24,996,98
	-----	-----
Total liabilities and stockholders' equity	\$ 128,004,555	\$ 88,002,48
	=====	=====

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

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AMERIVEST PROPERTIES INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three- Month Periods Ended September 30,		For t Month Pe Septe
	2002	2001	2002
	----- (unaudited)	----- (unaudited)	----- (unaudited)
REAL ESTATE OPERATING REVENUE			
Rental revenue	\$ 3,782,972	\$ 2,697,223	\$ 10,937,842
REAL ESTATE OPERATING EXPENSES			
Property operating expenses-			
Operating expenses	952,445	687,590	2,725,931
Real estate taxes	381,528	220,080	1,006,350
Management fees	37,062	137,807	96,944
General and administrative expenses	338,457	162,985	1,070,091
Advisory fee	251,910	--	251,910

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Impairment of deferred rents receivable	--	--	--
Interest expense	955,557	845,987	2,774,083
Depreciation and amortization expense	770,501	534,296	2,161,580
	<u>3,687,460</u>	<u>2,588,745</u>	<u>10,086,889</u>
OTHER INCOME/LOSS			
Interest income	83,064	71,184	135,961
Equity in loss of unconsolidated affiliates	(16,151)	--	(60,197)
	<u>66,913</u>	<u>71,184</u>	<u>75,764</u>
INCOME (LOSS) BEFORE GAIN ON SALE OF REAL ESTATE	<u>162,425</u>	<u>179,662</u>	<u>926,717</u>
GAIN ON SALE OF REAL ESTATE	<u>--</u>	<u>--</u>	<u>--</u>
NET INCOME	<u>\$ 162,425</u>	<u>\$ 179,662</u>	<u>\$ 926,717</u>
NET INCOME PER COMMON SHARE			
Basic	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.11</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.10</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	<u>10,925,253</u>	<u>5,773,195</u>	<u>8,785,796</u>
Diluted	<u>11,092,036</u>	<u>5,906,395</u>	<u>8,960,471</u>

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

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AMERIVEST PROPERTIES INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine-Month Periods Ended September 30,	
	2002 (unaudited)	2001 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 926,717	\$ 940,133
Adjustments to reconcile net income to net cash from operating activities-		
Gain on sale of real estate	--	(1,143,698)
Depreciation and amortization expense	2,161,580	1,667,362
Amortization of deferred financing costs	124,631	73,070

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Amortization of warrants	13,813	34,473
Equity in loss of unconsolidated affiliates	60,197	10,843
Impairment of deferred rents receivable	--	326,113
Accrued interest added to mortgage loans	--	123,894
Stock issued to the 401(k) plan	8,012	--
Increase (decrease) in cash due to changes in:		
Accounts receivable	191,569	12,995
Deferred rents receivable	(196,998)	(125,862)
Prepaid expenses and other assets	(90,371)	(29,924)
Accounts payable and accrued expenses	45,197	(275,106)
Other accrued liabilities	314,444	(328,814)
	-----	-----
Net cash from operating activities	3,558,791	1,285,479
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions and improvements of real estate, net of cash acquired and debt assumed	(8,070,895)	(5,851,743)
Deposits on real estate acquisitions	(415,000)	(100,000)
Net advances to unconsolidated affiliate	(687,923)	--
Net proceeds from the sale of real estate	--	458,030
Leasing commissions paid	(124,249)	(84,710)
	-----	-----
Net cash from investing activities	(9,298,067)	(5,578,423)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to mortgage loans and notes payable	2,330,201	3,015,584
Payments on mortgage loans and notes payable	(1,687,207)	(1,229,898)
Deposit for establishment of long-term credit facility	(664,094)	--
Deferred financing costs paid	(68,441)	(23,507)
Net proceeds from equity offering	22,781,538	10,962,729
Net proceeds from exercising of options and warrants	180,530	974,093
Increase in escrow deposits	(1,081,836)	(37,829)
Dividends paid	(2,787,666)	(1,198,317)
	-----	-----
Net cash from financing activities	19,003,025	12,462,855
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,263,749	8,169,911
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,119,355	1,046,976
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 14,383,104	\$ 9,216,887
	=====	=====

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

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

Nine-Month Periods Ended September 30,	
-----	-----
2002	2001
-----	-----
(unaudited)	(unaudited)

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW  
INFORMATION:

Cash paid for interest during the period	\$ 2,588,295	\$ 2,425,377
	=====	=====

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING  
AND FINANCING ACTIVITIES:

Stock issued to the Dividend Re-Investment Plan ("DRIP")	\$ 245,941	\$ 111,622
	=====	=====

- o On August 23, 2002, the Company issued 17,000 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. In 2001, the Company issued 100,211 shares to this entity as consideration for improvements made to a property in Arlington, Texas. The 17,000 shares issued represent a partial true up of the total shares to be issued in accordance with the original agreement. For accounting purposes, the shares were valued at \$94,520 (\$5.56 per share) and are included in investment in real estate on the accompanying consolidated balance sheet.
- o On September 5, 2002, the Company completed the acquisition of the Parkway Centre II office building. The aggregate purchase price for Parkway Centre II was \$22,000,000, which was paid through the assumption of the existing \$17,000,000 loan on the property and the balance paid in cash from a portion of the proceeds from the 2002 public offering.
- o On September 6, 2002, the Company purchased 2.55 acres of vacant land, adjacent to Keystone Office Park in Indianapolis, Indiana, from Sheridan Realty Partners, L.P., a related party, for \$320,000. The purchase price was paid through the issuance of 52,893 shares of the Company's common stock (\$6.05 per share).

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

AMERIVEST PROPERTIES INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2002 (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 real estate investment trust ("REIT"). The Company owns and operates, through its wholly-owned subsidiaries, the following properties:

Property -----	Location -----
Sheridan Plaza at Inverness	Englewood, CO
Sheridan Center	Denver, CO
Kellogg Building	Littleton, CO
Panorama Falls (a)	Englewood, CO

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Arrowhead Fountains	Peoria, AZ
Keystone Office Park	Indianapolis, IN
Parkway Centre II	Plano, TX
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 Mineral Wells, Georgetown, Henderson and Clifton, Texas.
- (c) These thirteen buildings are leased primarily to various agencies of the State of Texas. The buildings are located in Arlington, Paris, Marshall, Amarillo, El Paso (2), Bellville, Mission, Clint, Lubbock, Temple, Hempstead and Columbus, 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 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, 2001. The consolidated results of operations for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. 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, 2001.

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

### 3. New Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statement No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections", which is effective for fiscal years beginning after May 15, 2002. SFAS No. 145 addresses financial accounting and reporting for gains and losses realized from the extinguishment of debt. The Company does not expect its adoption of SFAS No. 145 to have a material impact on its net income or cash flows.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit of Disposal Activities", which is effective for exit or disposal activities that are initiated after December 31, 2002. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. The Company does not expect its adoption of SFAS No. 145 to have a material impact on its net income or cash flows.

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

Effective January 1, 2000 through December 31, 2001, all of the Company's properties were managed under a Property Management and Advisory Agreement (as

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amended on March 12, 2001, the "Agreement") with Sheridan Realty Advisors, LLC ("SRA"), which also managed the day-to-day operations of the Company and assisted and advised 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. In accordance with the Agreement, SRA received an administrative fee, a property management and accounting fee, an advisory fee and a capital project fee for these services. The property management and accounting fee was calculated as 5% of gross collected rents, the advisory fee is calculated as 5% of capital deployed for real property acquisitions and the capital project fee is calculated as 3% of the total cost of capital projects in excess of \$100,000.

The Agreement was further amended and restated as of December 31, 2001 to provide for the Company's acquisition of SRA's administrative and property management and accounting services business, along with the elimination of those related fees, effective January 1, 2002. As a result, most of SRA's employees, including three of the Company's senior executives, became employees of the Company and manage the day-to-day operations. The three senior executives also remain employees of SRA. SRA continues to advise the Company with respect to capital markets activity, real estate acquisitions and dispositions and major capital projects. For these services, SRA continues to earn the advisory and capital project fees under the amended and restated Agreement. For accounting purposes, due to the amendment of the Agreement effective January 1, 2002, the advisory and capital project fees are being expensed beginning in 2002.

During 2000, SRA received incentive compensation in the form of five-year warrants to purchase up to 750,000 shares of common stock at \$5.00 per share. Issuance of the warrants was approved by the shareholders at the annual meeting on June 6, 2000. According to the Agreement, 225,000 of these warrants were granted and vested on the approval date. These vested warrants have an estimated fair value of \$73,668, which is being amortized over the life of the Agreement through December 31, 2003. The remaining 525,000 warrants vest in an amount equal to 2.1% of capital deployed for real property acquisitions. As of September 30, 2002, all of the remaining 525,000 warrants vested and have an estimated fair value of \$307,725, which has been capitalized with the related acquisition costs.

### 5. Stock Offering

On May 9, 2002, the Company's Registration Statement became effective with the Securities and Exchange Commission for an offering of up to 4,140,000 shares of common stock, including 540,000 shares to cover over-allotments, at a price of \$6.05 per share. The Company received \$22,781,538, net of the underwriting commissions and offering expenses, from the sale of all 4,140,000 shares. The proceeds are being used to acquire and refurbish additional properties, for capital improvements to existing properties, including Arrowhead Fountains, Sheridan Center and the Kellogg Building, in an amount up to \$1,500,000, and for general corporate purposes.

### 6. Acquisitions and Developments

On September 5, 2002, the Company completed the acquisition of the Parkway Centre II office building. Parkway Centre II is located in Plano, Texas and contains 151,988 rentable square feet and is located on 6.4 acres. The aggregate purchase price for Parkway Centre II was \$22,000,000, which was paid through the assumption of the existing \$17,000,000 loan on the property and the balance paid in cash from a portion of the proceeds from the 2002 public offering. In connection with this acquisition, the Company paid an advisory fee to SRA in the amount of \$251,910 in accordance with the Agreement.

On September 6, 2002, the Company purchased 2.55 acres of vacant land, adjacent to Keystone Office Park in Indianapolis, Indiana, from Sheridan Realty



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Partners, L.P., a related party, for \$320,000. The purchase price was paid by the issuance of 52,893 shares of common stock (\$6.05 per share). The Company has commenced construction of an 18,000 square foot single-story office building on this site to accommodate existing tenant expansion needs and new tenants. The new building was designed to match the three existing buildings and is expected to be completed in the spring of 2003.

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The Company has entered into contracts to acquire two office properties within the next 60 days. The properties include a 186,000 square foot building in Denver, Colorado and a 171,000 square foot building in Dallas, Texas. The contracts are subject to a number of contingencies and there is no assurance that these acquisitions will occur.

### 7. Mortgage Loans and Notes Payable

On April 4, 2002, the Company drew down the remaining available amount of \$1,030,201 on its loan from US Bank for a total outstanding balance of \$10,500,000. The loan is secured by a mortgage on Sheridan Center.

During the second quarter of 2002, the Company was approved for a \$29,700,000 long-term credit facility with a major life insurance company. This facility will replace the existing short-term, variable rate mortgage loans on Arrowhead Fountains, the Kellogg Building and Sheridan Center and will bear interest at a fixed rate of 7.4%. This refinancing is expected to close in December 2002, however, the loan is subject to a number of contingencies and there is no assurance that this refinancing will actually occur.

In connection with the acquisition of Parkway Centre II, the Company assumed a loan with a principal balance of \$17,000,000 from J.P. Morgan Chase Commercial Mortgage Securities Corporation. The loan bears interest at LIBOR plus 195 basis points, due in monthly installments of interest only, with the principal balance and accrued interest due on August 10, 2004. This loan may be prepaid at any time without penalty.

The Company has a short-term revolving credit line from US Bank in the amount of \$300,000 and a \$1,500,000 short-term unsecured credit line from Sheridan Investments, LLC, a related party. At September 30, 2002, the Company did not have an outstanding balance on either of these lines of credit.

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

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The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto included in this Form 10-QSB and elsewhere.

#### Results Of Operations

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Comparison of the three-month period ended September 30, 2002 to the three-month period ended September 30, 2001

	Three-Month Periods Ended September 30,		Change
	2002	2001	
Rental revenue	\$ 3,782,972	\$ 2,697,223	\$ 1,085,749
Property operating expenses-			
Operating expenses	952,445	687,590	264,855
Real estate taxes	381,528	220,080	161,448
Management fees	37,062	137,807	(100,745)
General and administrative expenses	338,457	162,985	175,472
Advisory fee	251,910	--	251,910
Interest expense	955,557	845,987	109,570
Depreciation and amortization expense	770,501	534,296	236,205
	3,687,460	2,588,745	1,098,715
Other Income/Loss-			
Interest income	83,064	71,184	11,880
Equity in loss of unconsolidated affiliate	(16,151)	--	(16,151)
	66,913	71,184	(4,271)
Net Income	\$ 162,425	\$ 179,662	\$ (17,237)

### Rental revenue

The increase in rental revenue is due primarily to the inclusion of the operations of Arrowhead Fountains (acquired in November 2001), the Kellogg Building (acquired in December 2001) and Parkway Centre II (acquired in September 2002), offset by the exclusion of the operations of the Panorama Falls building (80% of which was sold in December 2001).

### Property operating expenses

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

The decrease in management fees is due to the Company's acquisition of Sheridan Realty Advisors, LLC ("SRA") administrative and property management and accounting services business, along with the elimination of those related fees, effective January 1, 2002. Subsequent to January 1, 2002, management fees decreased and general and administrative expenses increased due to the Company being internally managed versus externally managed in 2001.

### General and administrative expenses

The increase in general and administrative expenses is due to the above-mentioned acquisition of SRA's administrative and property management and accounting services business, together with an increase in corporate office staff necessary to manage the Company's continued growth. It is anticipated that

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general and administrative expenses will continue to increase as the Company acquires additional assets.

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### Advisory fee

The expense recognized in 2002 represents the advisory fee earned by SRA in connection with the acquisition of Parkway Centre II. These fees were previously capitalized with the related acquisition costs, however, due to the amendment of the Agreement effective January 1, 2002, the advisory and capital project fees are being expensed beginning in 2002.

### Interest expense

The increase in interest expense is due to an increase in the average outstanding debt balance for the three-month period ended September 30, 2002 by approximately 62% from the prior year period. The increase in debt is primarily due to the above-mentioned transactions. The effect of the increase in debt level is partially offset by a decrease in interest rates, which resulted in lower interest costs on the Company's variable rate debt.

### 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 2002.

### Equity in loss of unconsolidated affiliate

The equity in loss of unconsolidated affiliate recognized in 2002 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.

Comparison of the nine-month period ended September 30, 2002 to the nine-month period ended September 30, 2001

	Nine-Month Periods Ended September 30,		Change
	2002	2001	
Rental revenue	\$ 10,937,842	\$ 7,496,114	\$ 3,441,728
Property operating expenses-			
Operating expenses	2,725,931	1,955,488	770,443
Real estate taxes	1,006,350	594,282	412,068
Management fees	96,944	380,653	(283,709)
General and administrative expenses	1,070,091	521,266	548,825
Advisory fee	251,910	--	251,910
Impairment of deferred rents receivable	--	(326,113)	326,113
Interest expense	2,774,083	2,336,038	438,045
Depreciation and amortization expense	2,161,580	1,667,362	494,218
	-----	-----	-----
	10,086,889	7,781,202	2,305,687

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Other Income/Loss-			
Interest income	135,961	92,366	43,595
Equity in loss of unconsolidated affiliates	(60,197)	(10,843)	(49,354)
	75,764	81,523	(5,759)
Income (loss) before gain on sale of real estate	926,717	(203,565)	1,130,282
Gain on sale of real estate	--	1,143,698	(1,143,698)
Net Income	\$ 926,717	\$ 940,133	\$ (13,416)

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Rental revenue

The increase in rental revenue is due primarily to the inclusion of the operations of Sheridan Plaza at Inverness, LLC (acquired in April 2001) for the full nine months in 2002, Arrowhead Fountains (acquired in November 2001), the Kellogg Building (acquired in December 2001) and Parkway Centre II (acquired in September 2002), offset by the exclusion of the operations of the Gilledge building (sold in June 2001) and the Panorama Falls building (80% of which was sold in December 2001).

Property operating expenses

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

The decrease in management fees is due to the aforementioned acquisition of SRA's administrative and property management and accounting services business.

General and administrative expenses

The increase in general and administrative expenses is primarily due to the aforementioned acquisition of SRA's administrative and property management and accounting services business, together with an increase in corporate office staff necessary to manage the Company's continued growth.

Advisory fee

The expense recognized in 2002 represents the advisory fee earned by SRA in connection with the acquisition of Parkway Centre II. These fees were previously capitalized with the related acquisition costs, however, due to the amendment of the Agreement effective January 1, 2002, the advisory and capital project fees are being expensed beginning in 2002.

Impairment of deferred rents receivable

The charge recorded in 2001 represents an impairment of a deferred rent receivable from a significant tenant, Rhythms NetConnections, Inc., which filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in August 2001. Rhythms no longer occupies any space in any of the Company's buildings.

Interest expense

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The increase in interest expense is due to an increase in the average outstanding debt balance for the nine-month period ended September 30, 2002 by approximately 62% from the prior year period. The increase in debt is primarily due to the above-mentioned transactions. The effect of the increase in debt level is partially offset by a decrease in interest rates, which resulted in lower interest costs on the Company's variable rate debt.

### Depreciation and amortization expense

The net increase in depreciation and amortization expense is due to the overall increase in depreciable assets resulting from the above-mentioned transactions offset by the accelerated amortization of the Rhythms lease commission recorded during the second quarter of 2001.

### Interest income

Interest income increased due to higher average outstanding cash balances in interest bearing accounts in 2002.

### Equity in loss of unconsolidated affiliates

The equity in loss of unconsolidated affiliate recognized in 2002 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 amount recognized in 2001 represents the Company's share of the net loss of Sheridan Investments, LLC (which owned Sheridan Plaza at Inverness, LLC). The original 9.639% interest in Sheridan Investments, LLC was acquired in September 2000. This interest was then used as partial consideration for the acquisition of 100% of Sheridan Plaza at Inverness, LLC in April 2001.

### Gain on sale of real estate

The gain recognized in 2001 resulted from the sale of the Giltedge building.

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## Liquidity And Capital Resources

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### Liquidity

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Net cash from operations for the nine-month period ended September 30, 2002 was approximately \$3.6 million and is the primary source of liquidity to fund distributions, debt service and capital expenditures. The Company also has lines of credit available to assist with such cash needs. In May 2002, the Company completed a public offering of common stock, which raised approximately \$22.8 million, net of commissions and expenses. The proceeds are being used to acquire and refurbish additional properties, for capital improvements to existing properties, including Arrowhead Fountains, Sheridan Center and the Kellogg Building, in an amount up to \$1,500,000, and for general corporate purposes.

The Company has entered into contracts to acquire two office properties within the next 60 days. The properties include a 186,000 square foot building in Denver, Colorado and a 171,000 square foot building in Dallas, Texas. The contracts are subject to a number of contingencies and there is no assurance that these acquisitions will occur.

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Management believes that the cash flow from its existing properties and future acquisitions, together with its existing lines of credit, proceeds from the exercise of outstanding convertible securities and future capital transactions, will be sufficient to meet the Company's working capital needs and distribution requirements for the next year and beyond.

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 for additional properties, of which there is no assurance, could adversely affect the amount of cash available to pay dividends to stockholders. The Company has entered into an agreement with a regional investment bank to assist in raising additional equity capital for acquisitions, capital improvements and working capital over the next few months.

### Financing

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Mortgage loans are collateralized by all properties. The following table details the scheduled maturities of mortgages as of September 30, 2002:

2002	\$ 134,051
2003	23,762,132
2004	26,654,927
2005	488,010
2006	14,579,886
Thereafter	10,833,284
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Total	\$76,452,290
	=====

Included in the 2003 maturities is the outstanding balance on the mortgage loan on Panorama Falls in the amount of \$3,405,367. 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 September 30, 2002, total mortgage loans (including the Panorama Falls loan) consisted of approximately \$26.9 million of fixed rate debt with a weighted-average interest rate of approximately 7.9% and approximately \$49.6 million of variable rate debt with a weighted-average interest rate of approximately 4.2%.

The Company has a short-term revolving credit line from US Bank in the amount of \$300,000 and a \$1,500,000 short-term unsecured credit line from Sheridan Investments, LLC, a related party. At September 30, 2002, the Company did not have an outstanding balance on either of these lines of credit.

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### Inflation

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

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### Forward-Looking Statements

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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 2001 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

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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.

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## Part II. Other Information

### Item 1. Legal Proceedings

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Laura Smith v. Innerarity Austin, Inc. and AmeriVest Properties Inc. - no change

Irma Carranza v. AmeriVest Properties Texas Inc. - no change

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On August 23, 2002, a lawsuit was filed in the District Court, County of Arapahoe, Colorado, against our AmeriVest Broadway Properties, Inc. subsidiary, Sheridan Realty Advisors, LLC and Porter Construction Services, Inc., by Jane Doe alleging that the defendants were negligent in maintaining security at our Panorama Falls building. The plaintiff alleges that due to the acts and omissions of the defendants, she was sexually assaulted and continues to suffer from physical injuries and mental anguish. The plaintiff seeks monetary relief, including exemplary damages, and pre- and post-judgment interest as provided by law, costs of the lawsuit and such other relief to which the plaintiff may be justly entitled.

We have asserted a general denial of the material allegations in all lawsuits. These lawsuits, if adversely determined, could have a material adverse effect on our business and financial condition, and we cannot assure you that other lawsuits will not be filed. Our insurance company is defending us in these lawsuits.

### Item 2. Changes in Securities and Use of Proceeds

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On August 23, 2002, the Company issued 17,000 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. The 17,000 shares issued represent a partial true up of the total shares to be issued in accordance with the original agreement. For accounting purposes, the shares of common stock were valued at \$94,520 (\$5.56 per share). The 17,000 shares of common stock were issued in a transaction exempt from registration under Section 4(2) and the rules there under.

On September 6, 2002, the Company issued 52,893 shares of common stock to Sheridan Realty Partners, L.P., a related party, as consideration for the purchase of 2.55 acres of vacant land adjacent to Keystone Office Park in Indianapolis, Indiana, valued at \$320,000 (\$6.05 per share). The transaction was completed in accordance with the terms of an agreement to purchase such land between Sheridan Realty Partners, L.P. and the Company. The 52,893 shares of common stock were issued in a transaction exempt from registration under Section 4(2) and the rules there under.

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

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#### (a) Exhibits

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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

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- (i) On August 9, 2002, the Registrant filed a Current Report on Form 8-K regarding a change of independent auditors.
- (ii) On September 19, 2002, the Registrant filed a Current Report on Form 8-K describing the acquisition of Parkway Centre II.
- (iii) On November 13, 2002, the Registrant filed a Current Report on Form 8-K/A-1 consisting of an amendment to the Current Report on Form 8-K dated September 5, 2002 (filed September 19, 2002) and included disclosures under "Item 7. Financial Statements and Exhibits" for the acquisition of Parkway Centre II.



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

AMERIVEST PROPERTIES INC.

November 13, 2002

By: /s/ D. Scott Ikenberry  
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D. Scott Ikenberry  
Chief Financial Officer  
(Principal Financial Officer  
and Principal Accounting Officer)

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Certifications  
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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 of, 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 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

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- 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 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.

November 13, 2002

By: /s/ William T. Atkins

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William T. Atkins  
Chief Executive Officer

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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 of, 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 have:

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- 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 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.

November 13, 2002

By: /s/ D. Scott Ikenberry  
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D. Scott Ikenberry  
Chief Financial Officer